

Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name MONTMORENCY COUNTY	County MONTMORENCY
Fiscal Year End 12/31/06	Opinion Date 06/25/07	Date Audit Report Submitted to State 06/27/07	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☐ ☒ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☐ ☒ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) THOMAS R ZICK CPA, P.C.		Telephone Number 989-786-4032	
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Zip 49756		License Number 1101007478	
Authorizing CPA Signature 		Printed Name THOMAS R. ZICK	

**MONTMORENCY COUNTY
BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2006**

MONTMORENCY COUNTY

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INDEPENDENT AUDITOR'S REPORT

June 25, 2007

Board of Commissioners
Montmorency County
Atlanta, Michigan 49709

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Montmorency, Michigan as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Montmorency, Michigan management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Montmorency, Michigan, as of December 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated June 25, 2007 on my consideration of Montmorency County's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 45 through 52 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Montmorency, Michigan basic financial statements. The introductory section, and combining non-major fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied by me in the audit of the basic financial statements and, in my opinion, based on my audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Thomas R. Zick, CPA P.C." in a cursive script.

THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

MONTMORENCY COUNTY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Montmorency County, we offer readers of the Montmorency County financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

The assets of Montmorency County governmental funds exceed its liabilities at the close of fiscal year, 2006 by \$4,658,847. Of this amount \$584,971 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- * At December 31, 2006, the County's governmental funds reported combined ending fund balances of \$2,915,142.
- * At December 31, 2006, unreserved fund balance for the General Fund was \$306,416 or 7.2% of General Fund expenditures.
- * Governmental funds revenues were \$ 5,889,107.
- * Total long-term debt in the Governmental Activities was \$832,834 at December 31, 2006
- *

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County financial statements. The County basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS. The *government-wide financial statements* are designed to provide readers with a broad overview of the County finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in *net assets* may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows: Thus, revenues and expenses are reported in this statement of some items that will only result in cash flows in future fiscal periods (e.g. accrued interest expense).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the County include legislative, judicial, general government, public safety, public works, health and welfare, and recreation and culture. The business-type activities of the County include delinquent property tax collection and landfill operation which is reported as a component unit.

The government-wide financial statements include not only the County itself (known as the primary government), but also legally separate component units for which the County is financially accountable. Financial information for the component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 9-11 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FUND FINANCIAL STATEMENTS. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

GOVERNMENTAL FUNDS. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains 32 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the general fund, considered to be the major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets for the County's major funds.

The basic governmental fund financial statements can be found on pages 12-15 of this report.

Proprietary Funds. The County maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its delinquent taxes.

The basic proprietary fund financial statements can be found on pages 16-18 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 19 of this report.

NOTES TO THE FINANCIAL STATEMENTS. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-44 of this report.

OTHER INFORMATION. The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to the financial statement. Combining statements and schedules can be found on pages 53-64 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceed liabilities by \$6,973,425 at the close of the most recent fiscal year. A large portion of the County's net assets reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens, consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At December 31, 2006 the County had \$759,427 in debt associated with its governmental fund capital assets.

MONTMORENCY COUNTY NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and Other Assets	\$ 3,867,120	\$ 4,180,724	\$ 2,317,531	\$ 2,309,578	\$ 6,184,651	\$ 6,490,302
Capital Assets	<u>2,585,808</u>	<u>2,034,549</u>	<u>-</u>	<u>-</u>	<u>2,585,808</u>	<u>2,034,549</u>
Total Assets	6,452,928	6,215,273	2,317,531	2,309,578	8,770,459	8,524,851
Long-Term Liabilities	832,834	781,992	-	-	832,834	781,992
Other Liabilities	<u>961,247</u>	<u>1,577,609</u>	<u>2,953</u>	<u>68,309</u>	<u>964,200</u>	<u>1,645,918</u>
Total Liabilities	<u>1,794,081</u>	<u>2,359,601</u>	<u>2,953</u>	<u>68,309</u>	<u>1,797,034</u>	<u>2,427,910</u>
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	1,826,381	1,242,715	-	-	1,826,381	1,242,715
Restricted	2,247,495	1,751,265	230,946	32,272	2,478,441	1,783,537
Unrestricted	<u>584,971</u>	<u>861,692</u>	<u>2,083,632</u>	<u>2,208,997</u>	<u>2,668,603</u>	<u>3,070,689</u>
Total Net Assets	<u>\$ 4,658,847</u>	<u>\$ 3,855,672</u>	<u>\$ 2,314,578</u>	<u>\$ 2,241,269</u>	<u>\$ 6,973,425</u>	<u>\$ 6,096,941</u>

The County uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Investment in capital assets, net of related debt, is 26.2% of total net assets. An additional portion of the County's net assets (35.5%) represents resources that are subject to external restrictions on how they may be used. Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. All such assets (except for assets invested in capital assets, net of related debt) are considered restricted or unrestricted. The unrestricted portion of the County's net assets is 38.3% of net assets. These net assets may be used to meet the government's ongoing obligations to citizens and creditors.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**MONTMORENCY COUNTY
CHANGES IN NET ASSETS**

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program Revenue						
Charges for Services	\$ 1,197,554	\$ 1,270,445	\$ 414,660	\$ 200,855	\$ 1,612,214	\$ 1,471,300
Operating Grants and Contributions	823,873	876,164	-	-	823,873	876,164
Capital Grants	17,000	-	-	-	17,000	-
General Revenue						
Property Taxes	3,528,138	3,362,836	-	-	3,528,138	3,362,836
Other	238,221	282,972	121,865	64,419	360,086	347,391
Total Revenue	<u>5,804,786</u>	<u>5,792,417</u>	<u>536,525</u>	<u>265,274</u>	<u>6,341,311</u>	<u>6,057,691</u>
Expenses						
Legislative	105,483	102,778	-	-	105,483	102,778
Judicial	604,199	602,925	-	-	604,199	602,925
General Government	1,640,424	1,439,300	-	-	1,640,424	1,439,300
Public Safety	2,081,007	1,848,047	-	-	2,081,007	1,848,047
Public Works	-	-	-	-	-	-
Health and Welfare	609,240	656,564	-	-	609,240	656,564
Recreation and Culture	287,192	336,468	-	-	287,192	336,468
Interest on Debt	40,066	40,475	-	-	40,066	40,475
Delinquent Property Tax	-	-	97,216	25,321	97,216	25,321
Total Liabilities	<u>5,367,611</u>	<u>5,026,557</u>	<u>97,216</u>	<u>25,321</u>	<u>5,464,827</u>	<u>5,051,878</u>
Increase in Net Assets						
Before Transfer	437,175	765,860	439,309	239,953	876,484	1,005,813
Transfer	366,000	-	(366,000)	-	-	-
Increase in Net Assets	803,175	765,860	73,309	239,953	876,484	1,005,813
Net Assets - Beginning of Year	<u>3,855,672</u>	<u>3,089,812</u>	<u>2,241,269</u>	<u>2,001,316</u>	<u>6,096,941</u>	<u>5,091,128</u>
Net Assets - End of Year	<u>\$ 4,658,847</u>	<u>\$ 3,855,672</u>	<u>\$ 2,314,578</u>	<u>\$ 2,241,269</u>	<u>\$ 6,973,425</u>	<u>\$ 6,096,941</u>

Governmental Activities

Governmental activities increased the County's net assets by \$803,175 accounting for 91.6% of the total growth in the County's net assets. The main reasons for the change in fund balances and the change in net assets are capital outlays in the current year which are expensed under the modified accrual method are carried as fixed assets under full accrual, and the principal payments on debt that is expensed under the modified accrual method is booked as a reduction in long-term debt under full accrual. In addition, the new fund, Revenue Sharing Reserve set up by the State of Michigan statutes generated \$1,654,981 in additional Net Assets and had a \$516,049 increase in net assets for 2006.

In 2006, the County, using funds from the Tax Revolving fund, purchased the health department portion of the courthouse annex.

Also in 2006 the County experienced three lightning strikes which resulted in significant damage to computer and radio equipment. Insurance covered the damage, but considerable time and effort was devoted to replacing the damaged equipment.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

This year, 2006, was the first year the county treasurer held a tax sale/ auction since P.A. 123 was adopted by the State. This resulted in additional revenue of \$172,928 in the Tax Revolving Fund.

The sheriff's department purchased a boat and Ford Expedition using funds from a U.S.D.A. grant in the amount of \$17,000 and a five year loan for \$38,000.

Government activities include:

- * Legislative activities – Expenditures related to the Board of Commissioners and high-level administrative expenditures.
- * Judicial activities– Expenditures related to the administration of Circuit, District, and Probate/Family Courts and Court Probation units.

General government activities – Expenditures related to the support department of the County such as Administration, Equalization, Treasury, Facilities Management, Finance, and Other.

- * Public Safety – Expenditures related to the Sheriff's administration and road patrol and County corrections services.
- * Health and Welfare – Expenditures related to public health services, child care, medical examiner, programs for seniors, and housing assistance programs.
- * Recreation and Culture – Expenditures related to County library.

Business-type activities

The business-type activities of the County include proprietary operations.

Business-type activities increased the County's net assets by \$73,309 or 8.4% of the growth in net assets. The increase in the business-type activities' net assets was generated through interest and penalties on delinquent property taxes and interest earned on deposits in the Delinquent Tax Revolving Fund. This increase occurred after transferring \$366,000 to the governmental funds in 2006.

Business-type activities include:

- * Delinquent tax revolving fund – This fund was established as a means to provide the local governments within the County's jurisdiction with 100% of the property tax distributions owed to them annually. The County then acts as the collection agency for the outstanding delinquent taxes.

Financial Analysis of the Government's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County governmental fund statements is to provide information non near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Unreserved fund balance represented 10.9% of annual government expenditures in 2006 in the governmental funds.

The General fund balance decreased by \$88,200 from \$394,616 to \$306,416 during 2006 due to additional capital outlay expenditures while expenditures grew by 24.2%. General fund revenue included insurance proceeds from lightning storm damage totaling \$144,900. This is a non recurring transaction. Expenditure growth was highest in public safety and capital outlay. Unreserved fund balance of \$306,416 is available for spending at the County's discretion.

Proprietary funds. The County proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

<u>Proprietary Fund</u>	<u>2006 Unrestricted Net Assets.</u>
Enterprise Funds	
100% Tax Payment Fund	\$ 2,083,632

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Other factors considering the finances of these funds have been addressed in the discussion of the County's business-type activities.

General Fund Budgetary Highlights

Amended budgetary line items differed from the originally adopted budget mainly for the following reasons:

Revenues:

Storm damage proceeds	\$ 75,852
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Expenses:

County coordinator was increased by	18,663
Health Department was increased by	43,547
General Services were decreased by	32,554
Public Safety was increased by	124,892
Capital outlay increased by	458,405
Equalization was increased by	24,227
Prosecuting Attorney was increased by	9,675
Register of Deeds was increased by	21,595

Capital Asset and Debt Administration

Capital Assets – A capital asset is an asset whose cost exceeds \$400 and useful life is greater than two years. Included in the cost of a capital asset are items such as labor and freight and any other costs associated with bringing the asset into full operation. Assets are depreciated using the straight-line method over the course of their useful lives. A schedule of capital assets is shown on page 29 of this report

The County currently has long-term debt totaling \$832,834 which is a reduction of \$19,565 from 2005.

Economic Factors and Next Year's Budgets and Rates

The taxable value of commercial, residential, and personal property increased 3.89% from 2005 to 2006. This growth is expected to continue.

Montmorency County has seen their revenues increase on a very limited basis while expenses increased at a higher percentage. The County anticipates slow economic growth to continue throughout 2007 and 2008.

The County contracted to renovate the old courthouse with the majority of the renovation work occurring in 2007. The job was contracted on a not to exceed \$750,000 basis.

Requests for Information

This financial report is designed to provide a general overview of the County finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be referred to the Montmorency County Treasurer, P.O. Box 789, Atlanta, MI 49709.

MONTMORENCY COUNTY
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Primary Government			Component Unit	Component Unit
	Governmental	Business-type		Road	
	Activities	Activities	Total	Commission	Landfill Authority
ASSETS					
Cash demand and time deposits	\$ 1,181,211	\$ 1,408,335	\$ 2,589,546	\$ 104,012	\$ 89,489
Investments	901,590	301,442	1,203,032	-	2,065,062
Restricted cash	-	-	-	-	2,041,946
Restricted investments	-	-	-	-	-
Receivables					
Accounts	49,567	-	49,567	21,301	185,319
Current tax	1,350,223	-	1,350,223	-	-
Delinquent tax	-	492,548	492,548	-	-
Interest and penalties	-	115,206	115,206	-	-
Other governments	172,114	-	172,114	339,969	-
Mortgages/Notes	212,415	-	212,415	-	-
Prepaid items and other assets	-	-	-	28,549	904
Inventory	-	-	-	236,240	-
Capital assets					
Land & land improvements	76,500	-	76,500	-	164,561
Other capital assets, net of depreciation	2,509,308	-	2,509,308	14,313,891	1,760,242
TOTAL ASSETS	6,452,928	2,317,531	8,770,459	15,043,962	6,307,523
LIABILITIES					
Account payable	119,248	2,093	121,341	52,301	43,572
Accrued liabilities	77,878	-	77,878	60,637	9,036
Due to other governments	20,956	860	21,816	-	-
Deferred revenue	743,165	-	743,165	50,000	-
Noncurrent liabilities:					
Accrued compensated absences	73,407	-	73,407	178,662	-
Due within one year	78,427	-	78,427	176,213	393,911
Due in more than one year	681,000	-	681,000	1,005,648	88,132
Estimated liability for landfill closure and post closure care costs	-	-	-	-	3,883,614
TOTAL LIABILITIES	1,794,081	2,953	1,797,034	1,523,461	4,418,265
NET ASSETS					
Invested in capital assets, net of related debt	1,826,381	-	1,826,381	13,132,030	1,442,760
Restricted for:					
Debt Service	1,728	-	1,728	-	-
Capital Projects	1,131	-	1,131	-	-
Central Dispatch/911	111,122	-	111,122	-	-
County Library	137,951	-	137,951	-	-
Housing	138,449	-	138,449	-	-
Register of Deeds Automation	39,731	-	39,731	-	-
Construction Code Enforcement	8,800	-	8,800	-	-
Gypsy Moth Suppression	105,748	-	105,748	-	-
Other	47,854	230,946	278,800	-	-
Revenue Sharing Reserve	1,654,981	-	1,654,981	-	-
County Roads	-	-	-	388,471	-
Unrestricted	584,971	2,083,632	2,668,603	-	446,498
TOTAL NET ASSETS	\$ 4,658,847	\$ 2,314,578	\$ 6,973,425	\$ 13,520,501	\$ 1,889,258

See Notes to Financial Statements

**MONTMORENCY COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government					
Governmental Activities					
Legislative	\$ 105,483	\$ -	\$ -	\$ -	\$ (105,483)
Judicial	604,199	218,745	141,156	-	(244,298)
General Government	1,554,393	286,491	244,774	-	(1,023,128)
Public Safety	2,081,007	577,018	275,019	17,000	(1,211,970)
Health and Welfare	609,240	115,300	111,612	-	(382,328)
Recreation and Culture	287,192	-	51,312	-	(235,880)
Other	86,031	-	-	-	(86,031)
Interest on Debt	40,066	-	-	-	(40,066)
Total Governmental Activities	5,367,611	1,197,554	823,873	17,000	(3,329,184)
Business-type Activities					
Delinquent Property Tax	97,216	414,660	-	-	317,444
Total Business-type Activities	97,216	414,660	-	-	317,444
Total Primary Government	\$ 5,464,827	\$ 1,612,214	\$ 823,873	\$ 17,000	\$ (3,011,740)
Component Unit					
Road Commission	\$ 2,639,679	\$ 46,097	\$ 2,933,610	\$ 1,038,944	\$ 1,378,972
Landfill Authority	2,014,630	1,863,415	-	-	(151,215)
Total Component Units	\$ 4,654,309	\$ 1,909,512	\$ 2,933,610	\$ 1,038,944	\$ 1,227,757

(Continued)

See Notes to Financial Statements

MONTMORENCY COUNTY
STATEMENT OF ACTIVITIES (Concluded)
FOR THE YEAR ENDED DECEMBER 31, 2006

	Primary Government			Component Unit	Component Unit
	Governmental	Business-type		Road	
	Activities	Activities	Total	Commission	Landfill Authority
Changes in net assets					
Net (expense) revenue	\$ (3,329,184)	\$ 317,444	\$ (3,011,740)	\$ 1,378,972	\$ (151,215)
General revenues:					
Property taxes	3,528,138	-	3,528,138	-	-
Convention tax/Cigarette tax	63,425	-	63,425	-	-
Unrestricted investment earnings	89,955	121,865	211,820	13,688	156,408
Gain on disposition of capital assets	84,841	-	84,841	-	196,476
Transfers	366,000	(366,000)	-	-	-
Total general revenues, contributions and transfers	<u>4,132,359</u>	<u>(244,135)</u>	<u>3,888,224</u>	<u>13,688</u>	<u>352,884</u>
Change in net assets	803,175	73,309	876,484	1,392,660	201,669
Net assets, beginning of year	<u>3,855,672</u>	<u>2,241,269</u>	<u>6,096,941</u>	<u>12,127,841</u>	<u>1,687,589</u>
Net assets, end of year	<u>\$ 4,658,847</u>	<u>\$ 2,314,578</u>	<u>\$ 6,973,425</u>	<u>\$ 13,520,501</u>	<u>\$ 1,889,258</u>

See Notes to Financial Statements

**MONTMORENCY COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	MAJOR FUNDS		OTHER	
		REVENUE	NONMAJOR	
	GENERAL FUND	SHARING RESERVE	FUNDS	TOTAL
ASSETS				
Cash	\$ 11,428	\$ 539,051	\$ 630,732	\$ 1,181,211
Investments	200,590	421,000	280,000	901,590
Receivables				
Taxes	178,849	695,450	475,924	1,350,223
Accounts	36,892	-	12,675	49,567
Note	-	-	212,415	212,415
Due From Other Funds	8,195	-	-	8,195
Due From Other Governmental Units	73,107	-	99,007	172,114
TOTAL ASSETS	\$ 509,061	\$ 1,655,501	\$ 1,710,753	\$ 3,875,315
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 96,002	\$ -	23,246	\$ 119,248
Accrued Liabilities	51,817	-	16,792	68,609
Due to Other Funds	-	520	7,675	8,195
Due to Other Governmental Units	-	-	20,956	20,956
Deferred Revenue	54,826	-	688,339	743,165
TOTAL LIABILITIES	202,645	520	757,008	960,173
FUND BALANCES				
Reserved	-	1,654,981	592,514	2,247,495
Unreserved	306,416	-	361,231	667,647
TOTAL FUND BALANCES	306,416	1,654,981	953,745	2,915,142
TOTAL LIABILITIES AND FUND BALANCES	\$ 509,061	\$ 1,655,501	\$ 1,710,753	\$ 3,875,315

See Notes to Financial Statements

MONTMORENCY COUNTY
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
DECEMBER 31, 2006

Fund Balances - Total Governmental Funds	\$ 2,915,142
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital Assets - at Cost	3,772,407
Accumulated Depreciation	(1,186,599)
Accrued interest on bonds payable is not included as a liability in the funds	(9,269)
Long Term Debt - bonds payable not due and payable in current period and is not reported in the funds	(700,000)
Long Term Debt - Installment purchases not due and payable in current period and is not reported in the funds	(59,427)
Vested employee Benefits Payable are not due and payable in the current period and are not reported in the funds	<u>(73,407)</u>
Net Assets of Governmental Activities	<u>\$ 4,658,847</u>

See Notes to Financial Statements

MONTMORENCY COUNTY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	MAJOR FUNDS		OTHER -	
	GENERAL FUND	REVENUE SHARING RESERVE	NONMAJOR FUNDS	TOTAL
REVENUES				
Taxes	\$ 2,377,498	\$ 695,450	\$ 455,190	\$ 3,528,138
Licenses and Permits	6,808	-	129,062	135,870
Intergovernmental Revenue:				
Federal	27,467	-	79,000	106,467
State	207,256	-	337,610	544,866
Other Local Units	-	-	15,000	15,000
Charges for Services	735,061	-	326,623	1,061,684
Fines and Forfeits	5,390	-	37,777	43,167
Interest and Rents	73,319	-	16,636	89,955
Other Revenue	<u>282,373</u>	<u>-</u>	<u>81,587</u>	<u>363,960</u>
TOTAL REVENUES	<u>3,715,172</u>	<u>695,450</u>	<u>1,478,485</u>	<u>5,889,107</u>
EXPENDITURES				
Current				
Legislative	105,483	-	-	105,483
Judicial	577,358	-	8,593	585,951
General Government	1,288,729	-	210,377	1,499,106
Public Safety	1,454,223	-	543,919	1,998,142
Public Works	-	-	-	-
Health and Welfare	200,469	-	408,771	609,240
Recreation and Cultural	-	-	279,054	279,054
Other	86,031	-	-	86,031
Capital Outlay	498,895	-	288,381	787,276
Debt Service:				
Principal	20,407	-	50,000	70,407
Interest and Other Charges	<u>2,091</u>	<u>-</u>	<u>38,600</u>	<u>40,691</u>
TOTAL EXPENDITURES	<u>4,233,686</u>	<u>-</u>	<u>1,827,695</u>	<u>6,061,381</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(518,514)</u>	<u>695,450</u>	<u>(349,210)</u>	<u>(172,274)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from Installment Debt	-	-	38,000	38,000
Transfers In	590,538	-	210,224	800,762
Transfers (Out)	<u>(160,224)</u>	<u>(179,401)</u>	<u>(95,137)</u>	<u>(434,762)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>430,314</u>	<u>(179,401)</u>	<u>153,087</u>	<u>404,000</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(88,200)</u>	<u>516,049</u>	<u>(196,123)</u>	<u>231,726</u>
FUND BALANCES, BEGINNING OF YEAR	<u>394,616</u>	<u>1,138,932</u>	<u>1,149,868</u>	<u>2,683,416</u>
FUND BALANCES, END OF YEAR	<u>\$ 306,416</u>	<u>\$ 1,654,981</u>	<u>\$ 953,745</u>	<u>\$ 2,915,142</u>

See Notes to Financial Statements

MONTMORENCY COUNTY
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
DECEMBER 31, 2006

Net Change in Fund Balances - Total Governmental Funds \$ 231,726

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - Capital Outlay	787,276
Deduct - Depreciation Expense	(151,696)

Revenues in the statement of activities that do not provide current resources are not reported as fund revenues

Debt proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Add - Principal Payments on Long-Term Liabilities	70,407
Deduct - Proceeds from installment sale debt	(38,000)

Accrued interest on bonded debt does not require the current use of financial resources and is not reported as an expenditure in the fund statement

Add: decrease in accrued interest payable	625
-------------------------------------------	-----

Vested employee benefits payable do not require the current use of financial resources and are not reported as expenditures in the fund statement

Deduct - Increase in vested employee benefits	(12,842)
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The sale of capital assets in the governmental funds is recorded at the full sale price while in the Statement of Activities only the gain is recorded. Therefore the cost/net book value of the assets sold must be deducted.

(84,321)

Change in Net Assets of Governmental Activities	<u><u>\$ 803,175</u></u>
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See Notes to Financial Statements

**MONTMORENCY COUNTY
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

	<u>100% TAX PAYMENT</u>
ASSETS	
Current Assets	
Cash	\$ 1,408,335
Investments	301,442
Receivables:	
Taxes	492,548
Interest and Penalties on Taxes	<u>115,206</u>
 TOTAL ASSETS	 <u>2,317,531</u>
 LIABILITIES	
Accounts Payable	\$ 2,093
Accrued Liabilities	<u>860</u>
 TOTAL LIABILITIES, ALL CURRENT	 <u>2,953</u>
 NET ASSETS	
Unrestricted net assets	2,083,632
Restricted net assets	<u>230,946</u>
 TOTAL NET ASSETS	 <u>\$ 2,314,578</u>

See Notes to Financial Statements

**MONTMORENCY COUNTY
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
DECEMBER 31, 2006**

	ENTERPRISE FUND <u>100% TAX PAYMENT</u>
OPERATING REVENUES	
Interest and Penalties on Taxes	\$ 104,620
Charges for Services	137,112
Auction Proceeds - Net	<u>172,928</u>
 TOTAL OPERATING REVENUES	 <u>414,660</u>
 OPERATING EXPENSES	
Other Expenses	<u>86,914</u>
 TOTAL OPERATING EXPENSES	 <u>86,914</u>
 OPERATING INCOME (LOSS)	 327,746
 NONOPERATING REVENUES (EXPENSES)	
Interest Earned on Investments	121,865
Interest Expense	<u>(10,302)</u>
 TOTAL NONOPERATING REVENUES (EXPENSES)	 <u>111,563</u>
 INCOME BEFORE OPERATING TRANSFERS	 439,309
 TRANSFERS TO OTHER FUNDS	 <u>(366,000)</u>
 CHANGE IN NET ASSETS	 73,309
 NET ASSETS, BEGINNING OF YEAR	 <u>2,241,269</u>
 NET ASSETS, END OF YEAR	 <u>\$ 2,314,578</u>

See Notes to Financial Statements

**MONTMORENCY COUNTY
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	ENTERPRISE FUND
	100% TAX PAYMENT
Cash Flows from Operating Activities:	
Cash received from taxpayers - penalties and interest on delinquent taxes	\$ 252,606
Cash received from sale of taxes at auction	172,928
Cash received from taxpayers - delinquent taxes	1,213,806
Purchase of delinquent taxes	(1,220,539)
Cash payments to vendors and employees for services	<u>(83,961)</u>
Net Cash Provided (Used) by Operating Activities	<u>334,840</u>
Cash Flows from Non-Capital Financing Activities	
Transfer to other funds	(366,000)
Due to other governmental units	<u>(68,309)</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(434,309)</u>
Cash Flows from Capital and Related Financing Activities:	
Interest paid on tax notes	(10,302)
Proceeds from tax notes	1,000,000
Repayment of tax notes	<u>(1,000,000)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(10,302)</u>
Cash Flows from Investing Activities:	
Interest on Investments	<u>121,865</u>
Net Cash Provided by Investing Activities	<u>121,865</u>
Net Increase (Decrease) in Cash and Cash Equivalents	12,094
Cash and Cash Equivalents, Beginning of Year	<u>1,697,683</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,709,777</u>
Operating Income (Loss)	\$ 327,746
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
(Increase) Decrease in Delinquent Taxes Receivable	(6,733)
(Increase) Decrease in Interest and Penalties Receivable	10,874
Increase (Decrease) in Accounts Payable	2,093
Increase (Decrease) in Accrued Liabilities	<u>860</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 334,840</u>

See Notes to Financial Statements

**MONTMORENCY COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2006**

ASSETS

Cash	\$ 393,007
<u>TOTAL ASSETS</u>	<u>\$ 393,007</u>

LIABILITIES

Due to Other Governmental Units	\$ 27,762
Undistributed Collections	230,952
Other Liabilities	<u>134,293</u>
<u>TOTAL LIABILITIES</u>	<u>\$ 393,007</u>

See Notes to Financial Statements

**MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

DESCRIPTION OF COUNTY OPERATIONS AND FUND TYPES

The County was organized in 1881 and covers an area of approximately 550 square miles with the County seat located in Atlanta, Michigan. The County operates under an elected Board of Commissioners of five (5) members and provides services, assistance and care to its more than 10,000 residents, primarily from the operations of its General Fund and Special Revenue Funds. The County's services, assistance and care includes the (1) general county departments, boards and commissions; (2) court system administration; (3) law enforcement and corrections; (4) assistance and/or institutional care to the aged, needy, wards of the court and neglected children, public and mental health recipients; (5) libraries; (6) recreation, and (7) road construction and maintenance.

REPORTING ENTITY - The financial statements of certain governmental organizations are not included in the financial statements of the County: (1) Education services which are provided to citizens through the several local school districts which are separate governmental entities.

The Governmental Accounting Standards Board (GASB) in its issuance of Statement 14 "The Financial Reporting Entity" and the State of Michigan Department of Treasury established criteria for governmental organizations to be considered to be part of the County for financial reporting purposes. The criteria included oversight responsibility, fiscal dependency and whether the statements would be misleading if data was not included.

DISCRETELY PRESENTED COMPONENT UNITS

COUNTY ROAD COMMISSION - The County Road Commission is considered a component unit of the County. Its financial statement is discretely presented in the County Combined financial Statements as required by accounting principles generally accepted in the United States of America as revised under GASB 14. The Road Commission is presented discretely as a governmental fund type. This data is reported in a separate column to emphasize that the Road Commission does have an elected Road Commission and for the most part operates separate from the overall County. Complete financial statements can be obtained directly from the Road Commission office at 11445 M-32, Atlanta, Michigan 49709.

SOLID WASTE MANAGEMENT AUTHORITY - The Montmorency-Oscoda-Alpena Solid Waste Management Authority was incorporated during 1998, with by-laws adopted effective August 5, 1998. The Authority is the successor entity to a joint venture between Montmorency and Oscoda Counties and is considered a component unit of Montmorency County which, under GASB #14 is discretely presented as a proprietary(enterprise) fund type. The Authority was incorporated under the provisions of Act No. 233 of 1955 and was created by the counties of Montmorency, Oscoda, and Alpena. The registered office is the Office of the Treasurer of Montmorency County. Each entity appoints two representatives to the Authority Board, one of whom shall be a member of the legislative body of the municipality. The other appointed individual may, but need not be a member of the legislative body of the municipality.

The Authority articles of incorporation specifically stated its intention to assume the assets and liabilities of the joint venture between Montmorency and Oscoda County. In the event of dissolution the assets of the Authority shall be sold and the balance equally divided among the municipalities.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The employees of the Authority participate in all of the fringe benefit programs that Montmorency county employees are offered and information shown in subsequent notes to these financial statements cover Authority Board employees along with the general county employees except for the pension plan. During 2003 the Authority established its own pension account with MERS.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are charged based upon a countywide cost allocation plan, which allocates costs based upon the number of full time equivalents, number of transactions, and other pertinent information. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of the year for which they were levied, the Delinquent Tax Revolving Fund pays the County for any outstanding taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues are considered to be available when all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the County.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The County reports the following major governmental funds:

GENERAL FUND – This fund is the County's the primary general operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

REVENUE SHARING RESERVE FUND – This fund was established by the State of Michigan during 2004 as a result of legislation that in effect shifted an obligation formerly funded by the State to the local taxpayers by levying taxes sooner.

The County reports the following major enterprise fund:

DELINQUENT PROPERTY TAX FUND – This fund is used to pay each local governmental unit, including the County General Fund, the respective amount of taxes not collected as of March 1 of each year. Financing is provided by subsequent collection of delinquent property taxes by the County Treasurer.

Additionally, the County reports the following fund types:

SPECIAL REVENUE FUNDS – These funds are used to account for specific revenues derived primarily from sources (other than major capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

DEBT SERVICE FUNDS – account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the Building Authority.

CAPITAL PROJECTS FUNDS – The Capital Projects Funds are used to account for the acquisition or construction of major capital facilities other than those financed by enterprise funds or special assessments.

AGENCY FUNDS – are used to account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidelines.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are interest and penalties on delinquent taxes and charges for services provided. The principal operating revenues of the County's internal service funds are charges to County departments for equipment amortization and insurance coverage. Operating expenses for the enterprise funds consist of administrative expenses. Operating expenses for the internal service funds include the cost of services (including claims), administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non operating revenues and expenses.

BUDGETS AND BUDGETARY ACCOUNTING

PRIMARY GOVERNMENT

A budget is adopted by the Board of Commissioners in accordance with Michigan Public Act 621 of 1978, the Uniform Budgeting and Accounting Act, for the general and special revenue funds. The Board amends the budget as necessary during the year. The budget is adopted on the modified accrual basis of accounting consistent with the actual financial statements for these funds. The budget is adopted at the activity level and control is exercised at the activity level for the General Fund and Special Revenue Funds. All budget appropriations lapse at the end of each fiscal year.

The County does not use encumbrances in its accounting system.

DISCRETELY PRESENTED COMPONENT UNIT – ROAD COMMISSION

Budgetary procedures are established pursuant to Michigan Public Act 621, PA 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the Board of Road Commissioners for its review and consideration. The budget is amended as necessary during the year, and is approved by the Board. The budget is prepared on the modified accrual basis of accounting, which is the same basis utilized for the fund financial statements.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

BANK DEPOSITS AND INVESTMENTS – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair market value.

RECEIVABLES AND PAYABLES – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

CURRENT PROPERTY TAX LEVY – The County property tax is levied each December 1 and July 1 on the taxable valuation of property located in the County as of the preceding December 31.

Beginning with the 2004 tax levy the State has mandated the creation of a Revenue Sharing Reserve fund into which one-third of the County's 2004 ad valorem operating tax is being recognized and deposited each year for three years. The purpose of the fund is to accumulate reserves of the County's own local tax dollars from which an amount similar to Revenue Sharing payments, formerly made by the State, will be made back to the General Fund. As part of this process, the County's operating tax levy is shifting over the next three years from winter to summer.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The County's Winter 2005 and Summer 2006 ad valorem taxes were levied and collectible on December 1, 2005 and July 1, 2006, respectively. It is the County's policy to recognize revenues from the tax levy in the year when the proceeds of the levy are budgeted and made available for the financing of County operations. As a result, the County's Winter 2005 and Summer 2006 tax levies have been recognized as revenue in the current fiscal year. The 2005 taxable value of Montmorency County amounted to \$420,253,351 on which ad valorem taxes levies for county general operating purposes consisted of 3.43696 mills for Winter 2005 and the 2006 taxable value amounted to \$436,587,697 on which 3.4368 mills for Summer 2006. The Montmorency County Commission on Aging levied .4971 mills for services related to the aging within the County. The County levied .5930 mills for County Library services.

By resolution of the Board of Commissioners and agreement with various taxing authorities, the County purchased at face value the real property taxes receivable returned delinquent on March 1, 2006. Subsequent collections of delinquent taxes receivable, plus interest thereon and investment earnings, are used to repay the funds distributed by the Delinquent Tax Revolving fund. This activity is accounted for in the Delinquent Tax Revolving (Enterprise) Fund.

TAXES RECEIVABLE - DELINQUENT – The taxes receivable of \$492,548 which are recorded in the Enterprise 100% Tax Payment Fund, consist of the unpaid delinquent real property taxes which were purchased from all of the taxing units in Montmorency County by the County's 100% Tax Payment Fund. In the general fund taxes receivable are \$124,023 which is the balance on the 2006 summer levy. In addition \$54,826 is general fund taxes on the winter 2006 tax levy.

INVENTORIES AND PREPAID ITEMS ROAD COMMISSION (COMPONENT UNIT) – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statement.

CAPITAL ASSETS – Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the activities column in the government-as assets with an initial individual cost of more then \$400 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	50 to 75 years
Roads	10 to 30 years
Other Infrastructure	8 to 50 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

DEFERRED REVENUE – Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

LONG-TERM OBLIGATIONS – In the government-wide financial statements and proprietary fund type statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

after the implementation of GASB Statement No. 34, material bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt used is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

FUND EQUITY – In the fund financial statements, governmental and business-type funds report reservations of fund balance for amounts that are not are legally restricted for use for a specific purpose.

ACCOUNTING CHANGE – Effective January 1, 2004 the County implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB No.34)*, along with all related statements and interpretations. Changes to the County's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD & A) section providing analysis of the County's overall financial position and results of operations has been included.

Basic financial statement (statement of net assets and statement of activities) prepared using full accrual accounting for the governmental funds has been provided.

Capital assets in the statement of net assets includes assets totaling \$2,585,808 not previously accounted for by the County in its governmental funds.

The statement would also include bonds and other long-term obligations reported in the General Long-Term Debt Account Group.

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS / FUND DEFICITS

Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. The approved budgets of the County for all budgetary funds were adopted at the department (activity) levy.

PRIMARY GOVERNMENT

During the year ended December 31, 2006 no expenditures were incurred in excess of the amounts appropriated in the amended budget of the general fund and special revenue fund types of the primary government.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 3 – CASH AND INVESTMENTS

The captions on the accompanying balance sheet related to cash and investments are as follows:

	<u>Imprest</u>	<u>Cash/Checking and Savings</u>	<u>Investments</u>	<u>Total</u>
Primary Government				
Government Activities	\$ 4,086	\$ 1,177,125	\$ 901,590	\$ 2,082,801
Business-type Activities	-0-	1,408,335	301,442	1,709,777
Agency Funds	-0-	393,007	-	393,007
Component Unit				
Road Commission	200	103,812	-	104,012
Landfill Authority	500	2,130,935*	2,065,062	4,196,497
	<u>\$ 4,786</u>	<u>\$ 5,213,214</u>	<u>\$ 3,268,094</u>	<u>\$ 8,486,094</u>

* – Includes restricted cash of \$2,041,946.

Deposits – At year-end, the carrying amount of the County's deposits was \$5,213,214 and the bank balance of \$5,576,110 was classified as to risk as follows:

Insured	\$ 778,281
Uninsured – Uncollateralized	4,434,933
	<u>\$ 5,213,214</u>

Investments – Act 217, PA 1982, authorized the County to deposit and invest in the following:

- (a) bonds, securities and other direct obligations of the United States or its agencies
- (b) certificates of deposit, savings and accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the National Credit Union Administration that are eligible to be depository of surplus money belonging to the State and maintains a principal office or branch office in Michigan.
- (c) commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase.
- (d) United States government or Federal agency obligation repurchase agreements
- (e) bankers' acceptance of United States banks
- (f) mutual funds properly registered with the State of Michigan, composed of investments which are legal for direct investments by local units of government in Michigan.

The investments owned by Montmorency County as of December 31, 2006 are listed as follows:

	<u>Carrying Value</u>	<u>Market Value</u>
Mutual Funds:		
J P Morgan Chase Governmental Money Market Fund	\$ 2,032	\$ 2,032
National City Bank Municipal Investment Fund	3,266,062	3,266,062
Total Mutual Funds and Total Investments	<u>\$ 3,268,094</u>	<u>\$ 3,268,094</u>

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

The certificates of deposit in the Component Unit - Solid Waste Management Authority amounting to \$2,041,946 were placed into an escrow account at National City Bank under the direction of the Director of the Michigan Department of Environmental Quality. The director of the Department is the beneficiary on the escrow account. The escrow account was established to hold the investments/cash accounts. All earnings must accrue to the escrow account. The Director must approve any disbursements from the account which assures that monitoring of the landfill site will have sufficient funds if needed in future years. These certificates are classified as Restricted Cash in the accompanying financial statements.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The county's investments all meet State statutes.

Interest Rate Risk

The County has not adopted a policy that indicates how the County will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of Credit Risk

The County has not adopted a policy that indicates how the County will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk

The County has not adopted a policy that indicates how the County will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

NOTE 4 – RECEIVABLES / DEFERRED REVENUE

Receivables as of year-end for the government's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

		Revenue Sharing	Other	
	General Fund	Reserve Fund	Nonmajor Funds	Total
Taxes Receivable	\$ 178,849	\$ 695,450	\$ 475,924	\$ 1,350,223
Accounts	36,892	-	12,675	49,567
EDC Loans	-		212,415	212,415
Intergovernmental	73,107	-	99,007	172,114
Net Receivables	<u>\$ 288,848</u>	<u>\$ 695,450</u>	<u>\$ 800,021</u>	<u>\$ 1,784,319</u>

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 4 – RECEIVABLES / DEFERRED REVENUE (CONTINUED)

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Delinquent Property Taxes	\$ 530,750	\$ -	\$ 530,750
EDC Loans	-	212,415	212,415
Total	<u>\$ 530,750</u>	<u>\$ 212,415</u>	<u>\$ 743,165</u>

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>	
Due To/From Other Funds			
General	\$ 8,195	Lake Levels Fund	\$ 5,000
		Law Enforcement Grants	2,675
		Revenue Sharing Reserve	<u>520</u>
Total	<u>\$ 8,195</u>		<u>\$ 8,195</u>

Interfund Transfers

	<u>Operating Transfer In</u>	<u>Operating Transfer (Out)</u>	<u>Total</u>
Transfers In			
General Fund	\$ 590,538	\$ (160,224)	\$ 430,314
Revenue Sharing Reserve Fund	-	(179,401)	(179,401)
Budget Stabilization	-	(86,894)	(86,894)
Tax Payment Funds	-	(366,000)	(366,000)
Non-Major Governmental Funds	<u>210,224</u>	<u>(8,243)</u>	<u>201,981</u>
Total	<u>\$ 800,762</u>	<u>\$ (800,762)</u>	<u>\$ -</u>

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 6 - CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	Balance 1/1/06	Additions	Disposals	Balance 12/31/06
Capital assets not being depreciated:				
Land	\$ 69,078	\$ -	\$ -	\$ 69,078
Subtotal	<u>69,078</u>	<u>-</u>	<u>-</u>	<u>69,078</u>
Capital assets being depreciated:				
Buildings	1,808,928	465,106	-	2,274,034
Land Improvements	7,422	-	-	7,422
Equipment	974,778	279,662	229,682	1,024,758
Vehicles	<u>414,002</u>	<u>42,508</u>	<u>59,395</u>	<u>397,115</u>
Subtotal	<u>3,205,130</u>	<u>787,276</u>	<u>289,077</u>	<u>3,703,329</u>
Accumulated Depreciation:				
Buildings	573,226	40,654	-	613,880
Land Improvements	1,484	742	-	2,226
Equipment	492,858	84,717	160,353	417,222
Vehicles	<u>172,091</u>	<u>25,583</u>	<u>44,403</u>	<u>153,271</u>
Subtotal	<u>1,239,659</u>	<u>151,696</u>	<u>204,756</u>	<u>1,186,599</u>
Net Capital Assets Being Depreciated	<u>1,965,471</u>	<u>635,580</u>	<u>84,321</u>	<u>2,516,730</u>
Net Capital Assets	<u>\$ 2,034,549</u>	<u>\$ 635,580</u>	<u>\$ 84,321</u>	<u>\$ 2,585,808</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
Judicial	\$ 18,248
General government	42,445
Public Safety	82,865
Recreation and Culture	<u>8,138</u>
Total Governmental Activities	<u>\$ 151,696</u>

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 6 - CAPITAL ASSETS (CONTINUED)

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION – The following is a summary of changes in Capital Assets

	Balance 1/1/06	Additions	Disposals	Balance 12/31/06
Capital assets not being depreciated:				
Land and Improvements	\$ 17,476	\$ -	\$ -	\$ 17,476
Infrastructure and Land Improvements	<u>5,398,090</u>	<u>1,464,064</u>	<u>-</u>	<u>6,862,154</u>
	<u>5,415,566</u>	<u>1,464,064</u>	<u>-</u>	<u>6,879,630</u>
Capital assets being depreciated:				
Buildings	1,999,378	-	-	1,999,378
Equipment - Road	2,855,717	170,107	178,774	2,847,050
Equipment - Shop	42,004	-	-	42,004
Equipment - Office	38,290	2,349	838	39,801
Equipment - Engineering	7,235	-	-	7,235
Depletable Assets	83,640	-	-	83,640
Infrastructure - Bridges	2,098,789	-	-	2,098,789
Infrastructure - Roads	<u>7,038,716</u>	<u>835,445</u>	<u>-</u>	<u>7,874,161</u>
Subtotal	<u>14,163,769</u>	<u>1,007,901</u>	<u>179,612</u>	<u>14,992,058</u>
Accumulated Depreciation:				
Buildings	286,231	43,765	-	329,996
Equipment - Road	2,255,873	180,182	178,774	2,257,281
Equipment - Shop	25,656	4,226	-	29,882
Equipment - Office	28,740	3,601	838	31,503
Equipment - Engineering	4,078	847	-	4,925
Depletable Assets	27,940	-	-	27,940
Infrastructure - Bridges	383,092	58,841	-	441,933
Infrastructure - Roads	<u>3,750,803</u>	<u>683,534</u>	<u>-</u>	<u>4,434,337</u>
Subtotal	<u>6,762,413</u>	<u>974,996</u>	<u>179,612</u>	<u>7,557,797</u>
Net Capital Assets Being Depreciated	<u>7,401,356</u>	<u>32,905</u>	<u>-</u>	<u>7,434,261</u>
Net Component Unit Capital Assets	<u>\$ 12,816,922</u>	<u>\$ 1,496,969</u>	<u>\$ -</u>	<u>\$ 14,313,891</u>

Depreciation expense was charged to operations as follows:

Primary	\$ 416,501
Local	325,874
Equipment	228,173
Administration	<u>4,448</u>
Total depreciation	<u>\$ 974,996</u>

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 6 - CAPITAL ASSETS (CONTINUED)

DISCRETELY PRESENTED COMPONENT UNIT - SOLID WASTE MANAGEMENT AUTHORITY

Capital asset activity of the Authority for the current year was as follows:

Depreciation expense was \$382,216 for 2006.

	Balance 1/1/06	Additions	Disposals	Balance 12/31/06
Capital assets not being depreciated:				
Land	\$ 164,561	\$ -	\$ -	\$ 164,561
Capital assets being depreciated:				
Land Improvements/buildings	5,970,274	273,912	-	6,244,186
Equipment	1,510,953	519,144	429,867	1,600,230
Subtotal	7,481,227	793,056	429,867	7,844,416
Accumulated Depreciation:				
Accumulated Depreciation:	5,813,741	382,216	276,344	5,919,613
Subtotal	5,813,741	382,216	276,344	5,919,613
Net Capital Assets Being Depreciated	1,667,486	410,840	153,523	1,924,803
Net Business Type Activities Capital Assets	\$ 1,832,047	\$ 410,840	\$ 153,523	\$ 2,089,364

NOTE 7 - LONG-TERM DEBT

Following is a summary of pertinent information concerning the County's long-term debt:

PRIMARY GOVERNMENT

Outstanding Debt Descriptions:

	General County
General Obligation:	
Judicial Annex and Refunding Bonds	\$ 700,000
Lease/Purchase Installment Leases	59,427
Compensated absences	73,407
Totals	<u>\$ 832,834</u>

CHANGES IN LONG-TERM DEBT

	Bonded Debt	Installment Loans	Proprietary	Compensated Absences	Total
January 1, 2006	\$ 750,000	\$ 41,834	\$ -0-	\$ 60,565	\$ 852,399
Additions	-0-	38,000	1,000,000	-0-	1,038,000
Reductions	(50,000)	(20,407)	1,000,000	(1) 12,842	(1,057,565)
December 31, 2006	<u>\$ 700,000</u>	<u>\$ 59,427</u>	<u>\$ -0-</u>	<u>\$ 73,407</u>	<u>\$ 832,834</u>

(1) Changes in compensated absences are shown as net additions.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 7 - LONG-TERM DEBT (CONTINUED)

GENERAL LONG-TERM DEBT

DESCRIPTION: - Judicial Annex and Refunding General Obligation Bonds - proceeds used to finance the construction of a courthouse addition and to refinance the outstanding correctional facility bonds.

<u>Interest Rates</u>	<u>Maturity Year</u>	<u>Outstanding Principal</u>	<u>12/31/06 Interest</u>
5.00/5.65	2020	\$ 700,000	\$ 265,913
	Total	\$ 965,913	

Annual Debt Service Requirements:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Other</u>	<u>Total</u>
Principal	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 450,000	\$ 700,000
Interest	35,825	33,325	30,825	28,300	25,738	111,900	265,913
Total	\$ 85,825	\$ 83,325	\$ 80,825	\$ 78,300	\$ 75,738	\$ 561,900	\$ 965,913

The construction cost for the courthouse addition was \$660,000 and \$335,000 was needed at issue date to repay the correctional facility bonds. In future years 34% of the payment is being charged to the correctional facility and 66% to general fund operations.

The Montmorency County Building Authority under PA 31 of 1948 borrowed the funds. The County has pledged its full faith and credit under lease agreements with the Building Authority and is obligated to levy each year, to the extent necessary, ad valorem taxes necessary for payment of the leases. The leases provide the Building Authority with sufficient funds to pay the debt obligation.

Installment / Lease Purchase

DESCRIPTION: - The County purchased three patrol vehicles paying one third in the 2005 and 2006 year and agreeing to pay one additional annual payment as follows:

	<u>2007</u>	<u>Total</u>
Principal	\$ 21,427	\$ 21,427
Interest	1,071	1,071
	\$ 22,498	\$ 22,498

Interest is calculated at a rate of 5.0% per annum with the final payment due October 7, 2007.

DESCRIPTION: - The County purchased a 2007 Ford Expedition and 2006 SeaPro boat. As part of the purchase arrangement the County borrowed \$38,000 from the United States Department of Agriculture. Interest is payable at the rate of 4.4% per annum and payments are scheduled as follows:

Annual Debt Service Requirements:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
Principal	\$ 7,000	\$ 7,000	\$ 7,500	\$ 8,000	\$ 8,500	\$ 38,000
Interest	1,579	1,356	1,050	722	372	5,079
Total	\$ 8,579	\$ 8,356	\$ 8,550	\$ 8,722	\$ 8,872	\$ 43,079

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 7 - LONG-TERM DEBT (CONTINUED)

	<u>Total Annual Debt Service Requirements:</u>						
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Other</u>	<u>Total</u>
Principal	\$ 78,427	\$ 57,000	\$ 57,500	\$ 58,000	\$ 58,500	\$ 450,000	\$ 759,427
Interest	<u>38,475</u>	<u>34,681</u>	<u>31,875</u>	<u>29,022</u>	<u>26,110</u>	<u>111,900</u>	<u>272,063</u>
Total	<u>\$ 116,902</u>	<u>\$ 91,681</u>	<u>\$ 89,375</u>	<u>\$ 87,022</u>	<u>\$ 84,610</u>	<u>\$ 561,900</u>	<u>\$ 1,031,490</u>

Compensated Absences

The County policies provide for accumulated vacation, sick and personal days. At December 31, 2006 the accumulated totals were \$73,407 for the three combined.

BUSINESS-TYPE ACTIVITIES DEBT

The County borrowed to assist in funding the pay off of delinquent property taxes in the Delinquent Tax Revolving fund during 2006. The tax notes were dated May 11, 2006. The County borrowed \$1,000,000. Interest was payable monthly at an adjustable rate which varied from 5.27% to 5.67%. The loan was paid in full August 24, 2006.

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

<u>Description</u>	<u>1/1/06</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/06</u>
Installment Loans:				
Citizens Bank	\$ 412,077	\$ -	\$ 52,369	\$ 359,708
New Holland Tractor/Mower	11,427	-	11,427	-
Komatsu Dozer	73,148	-	15,054	58,094
Etnyre Trailer	40,241	-	8,397	31,844
Ford Credit – Van	9,336	-	2,121	7,215
Series 2003 Bond Issue	815,000	-	90,000	725,000
Compensated Absences (1)	<u>215,634</u>	<u>-</u>	<u>36,972</u>	<u>178,662</u>
Total	<u>\$ 1,576,863</u>	<u>\$ -</u>	<u>\$ 216,340</u>	<u>\$ 1,360,523</u>

(1) Compensated absences are recorded as a net addition or deduction.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Other</u>	<u>Total</u>
Principal	\$ 176,213	\$ 179,907	\$ 188,288	\$ 180,910	\$ 169,740	\$ 286,803	\$ 1,181,861
Interest	<u>44,513</u>	<u>38,855</u>	<u>32,376</u>	<u>25,987</u>	<u>19,982</u>	<u>26,754</u>	<u>188,467</u>
Total	<u>\$ 220,726</u>	<u>\$ 218,762</u>	<u>\$ 220,664</u>	<u>\$ 206,897</u>	<u>\$ 189,722</u>	<u>\$ 313,557</u>	<u>\$ 1,370,328</u>

Installment Loans:

In 2002 a New Holland tractor/mower was purchased and financed through New Holland Credit Corp. Annual payments of \$12,055 are due with an interest rate of 5.50%. The loan matured in 2006.

On June 29, 2005 the Road Commission lease/purchased a Komatsu Dozer. Monthly payments of \$1,499 are due beginning August 1, 2005 with a final payment due July 1, 2010. Interest is charged at a rate of 4.5% per annum.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 7 - LONG-TERM DEBT (CONTINUED)

On July 1, 2005 the Road Commission lease/purchased an Etnyre trailer. Monthly payments of \$818 are due beginning August 5, 2005 with a final payment due July 10, 2010. Interest is charged at a rate of 4.30% per annum.

On October 16, 2005 the Road Commission purchased a Ford van. Monthly payments of \$243 are due beginning November 16, 2005 with a final payment due October 16, 2009. Interest is charged at a rate of 9.40% per annum.

On November 2, 2005 the Road Commission purchased three International trucks and related equipment. Citizens Bank financed the transaction in two parts. One part financed the trucks and the other portion of the note purchased the attached equipment. Monthly payments of \$3,400 and \$2,339 are due beginning December 15, 2005 with a final payment due November 15, 2012. Interest is charged at a rate of 4.25% per annum.

Series 2003 Michigan Transportation Fund Bond Issue

During 2003 \$900,000 was borrowed to assist in reconstruction of the Atlanta facility necessary after the fire which occurred in 2002. The amortization schedule is as follows:

	Interest Rate	May 1 Interest	Principal	November 1 Interest	Principal
2007	2.75%	12,090	-0-	12,090	95,000
2008	2.75%	10,784	-0-	10,784	95,000
2009	3.10%	9,478	-0-	9,478	100,000
2010	3.35%	7,927	-0-	7,927	105,000
2011	3.55%	6,169	-0-	6,169	105,000
2012	3.75%	4,305	-0-	4,305	110,000
2013	3.90%	2,242	-0-	2,242	115,000
		<u>\$ 52,995</u>	<u>\$ -0-</u>	<u>\$ 52,995</u>	<u>\$ 725,000</u>

Interest rates varied between 2.75% and 3.90% over the life of the Bond Issue.

Compensated Absences

Road Commission policies provide for the payment of vacation, sick and personal days accumulated. Accrued sick pay at December 31, 2006 was \$129,383. Vacation and personal days accumulated created a liability of \$49,279 for a total of \$178,662.

DISCRETELY PRESENTED COMPONENT UNIT - SOLID WASTE MANAGEMENT AUTHORITY

	<u>12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/06</u>
2002 Bond	340,000	-0-	165,000	175,000
Lease/Purchase	451,002	127,352	271,311	307,043
Total	<u>\$ 791,002</u>	<u>\$ 127,352</u>	<u>\$ 436,311</u>	<u>\$ 482,043</u>

DESCRIPTION - Series 2002 General Obligation Limited Tax Bonds were issued to be used to finance the cost of a new landfill cell. It is anticipated that revenue from the Authority will be sufficient to repay the bonds as they come due, however, the three counties involved have pledged to levy ad valorem taxes if necessary to repay the bonds.

<u>Year</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	3.10%	<u>\$ 175,000</u>	<u>\$ 5,425</u>	<u>\$ 180,425</u>

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 7 - LONG-TERM DEBT (CONTINUED)

DESCRIPTION - In 2006 a 730 Caterpillar truck was purchased with CAT Financial providing the financing. A Bomag compactor was purchased in 2002 with Old National Bank providing the financing. In 2004 a 980GII loader was purchased with CAT Financial providing the lease/financing. The 980G11 contract calls for a balloon payment of \$126,000 on June 20, 2007. The CAT Financial lease on the truck provides for even monthly payments with no balloon and a payoff on August 10, 2010. The Old National Bank lease requires 5 payments beginning in January of 2003. The equipment has been capitalized and the outstanding balances are shown as installment loans in the financial statements. Interest rates vary between 3.75% and 5.8%.

<u>Interest</u> <u>Rates</u>	<u>Outstanding 12/31/06</u> <u>Principal</u>	<u>Interest</u>
3.75/5.8	<u>\$ 307,043</u>	<u>\$ 18,025</u>
Total	<u>\$ 325,068</u>	

Equipment Lease/Purchase Annual Debt Service Requirements

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Principal	\$ 218,911	\$ 31,466	\$ 33,341	\$ 23,325	\$ 307,043
Interest	<u>10,821</u>	<u>4,284</u>	<u>2,410</u>	<u>510</u>	<u>18,025</u>
Total	<u>\$ 229,732</u>	<u>\$ 35,750</u>	<u>\$ 35,751</u>	<u>\$ 23,835</u>	<u>\$ 325,068</u>

Monthly payments on the equipment are as follows:

980GII wheel loader	\$ 3,031
730 Caterpillar truck	<u>2,979</u>
	<u>\$ 6,010</u>

Annual payment on
Bomag compactor is:
\$ 52,827

Long-Term Debt annual Debt Service Requirements

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Principal	\$ 393,911	\$ 31,466	\$ 33,341	\$ 23,325	\$ 482,043
Interest	<u>16,246</u>	<u>4,284</u>	<u>2,410</u>	<u>510</u>	<u>23,450</u>
Total	<u>\$ 410,157</u>	<u>\$ 35,750</u>	<u>\$ 35,751</u>	<u>\$ 23,835</u>	<u>\$ 505,493</u>

Long-Term Debt Summary

	<u>2006</u>	<u>2005</u>
2002 General Obligation Limited Tax Bonds	\$ 175,000	\$ 340,000
Installment Loans	<u>307,043</u>	<u>451,002</u>
Total Debt	482,043	791,002
Less Current Portion	<u>(393,911)</u>	<u>\$ (295,127)</u>
Net Long-Term Debt	<u>\$ 88,132</u>	<u>\$ 495,875</u>

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 8 - PENSION PLANS

PRIMARY GOVERNMENT

Plan Description - Montmorency County participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 447 N. Canal Road, Lansing, Michigan 48917.

All full time County employees are eligible to participate in the system. Benefits vest after ten years of service. General County employees who retire at or after age 55 with 15 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.25% of the members 5-year final average compensation.

Participating general county employees are not required to contribute to the system. The county is required to contribute amounts necessary to fund the Michigan Municipal Employees Retirement System using the actuarial basis specified by State Statute.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (a) inflation, and (b) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (c) the assumption that benefits will increase 2.5% annually after retirement.

All entries are based on the actuarial methods and assumption that were used in the December 31, 2006 actuarial valuation to determine the annual employer contribution amounts. the entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/06)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 4,090,762
Terminated employees not yet receiving benefits	374,828
Non-vested terminated employees	770
Current employees:	
Accumulated employee contributions	
including allocated investment income	3,389
Employer financed	<u>3,439,215</u>
Total Actuarial accrued liability	7,908,964
Net Assets Available for Benefits, at actuarial value	
(Market Value is \$4,903,718)	<u>4,836,066</u>
Unfunded (over funded) actuarial accrued liability	<u>\$ 3,072,898</u>

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 8 - PENSION PLANS (CONTINUED)

GASB 27 INFORMATION (as of 12/31/06)

Fiscal year beginning	January 1, 2008
Annual required contribution (ARC)	\$ 377,460
Amortization factor used	0.054719

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2004 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Annual Pension Cost

<u>Year Ended December 31, ____</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 218,436	100%	\$ -0-
2004	\$ 252,528	100%	-0-
2005	\$ 249,240	100%	-0-

The County was required to contribute \$252,528 for the year ended December 31, 2006. Payments were based on contribution calculations made by MERS.

<u>Actuarial Valuation Date December 31</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL - % Of Covered Payroll</u>
2004	4,584,826	6,732,334	2,147,508	68%	1,473,150	146%
2005	4,475,878	6,903,023	2,427,145	65%	1,401,434	173%
2006	4,836,066	7,908,964	3,072,898	61%	1,683,349	183%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997 and 2000 and 2004 valuations. The funding method was changed to entry age normal for the 1993 valuation.

LIBRARY

The Library fund employees left the MERS plan in May of 2004. They set up a Simplified Employee Pension (SEP) administered by National City Bank and its investment department. This plan is a defined contribution plan. The Library fund is required to contribute 8.9% of the employee wages to the plan. For the year ended through December 2006 \$13,038 was contributed to the plan. The Library does not receive a summary statement. Each employee has their separate account and receives the required statements from the bank.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 8 - PENSION PLANS (CONTINUED)

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

Plan Description - Montmorency County Road Commission has established a defined contribution pension plan with the Manulife Financial covering substantially all employees. Participating employees contribute a portion of their compensation annually and the Commission contributes the remaining amounts necessary to fund the plan according to requirements. The Commission is obligated for 5-7% of an employees base salary computed as of January 1 each year. Total payroll was \$991,076 for the year. The total contribution to the plan for 2006 was \$58,432.

Funding Status and Progress - Not all of the information required by the Governmental Accounting Standards Board disclosure requirements is included below because the year end reports did not contain the necessary information. The following information was supplied, however.

Account Value at January 1, 2006	\$ 1,397,874
Employer Contributions	58,438
Employee Contributions	45,242
Net Investment Earnings and	
Market Value Increase	190,991
Administrative Fees	(10,969)
Distributions	<u>(224,814)</u>
 Total Plan Assets at	
December 31, 2006	 <u>\$ 1,456,756</u>

DISCRETELY PRESENTED COMPONENT UNIT – SOLID WASTE MANAGEMENT LANDFILL AUTHORITY

In previous years the Authority employees were participants in the Montmorency County pension plan. Pension contributions from the Authority for 2006 and 2005 respectively were \$30,577 and \$24,218. In early 2003 the Authority separated their plan from Montmorency County. The December 31, 2005 actuarial report is used in this report. The December 31, 2006 report is not yet available from MERS.

Plan Description – The Authority participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 447 N. Canal Road, Lansing, Michigan 48917.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 8 - PENSION PLANS (CONTINUED)

All full time Authority employees are eligible to participate in the system. Benefits vest after ten years of service. Authority employees who retire at or after age 55 with 15 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.25% of the members 5-year final average compensation.

Participating Authority employees are not required to contribute to the system. The Authority is required to contribute the amounts necessary to fund the Michigan Municipal Employees Retirement System using the actuarial basis specified by State Statute.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2004. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (a) inflation, and (b) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (c) the assumption that benefits will increase 2.5% annually after retirement.

All entries are based on the actuarial methods and assumption that were used in the December 31, 2004 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/05)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 442,550
Terminated employees not yet receiving benefits	-
Non-vested terminated employees	-
Current employees:	
Accumulated employee contributions including	-
Employer financed	244,330
Total Actuarial accrued liability	686,880
Net Assets Available for Benefits, at actuarial value	
(Market Value is 494,198)	507,573
Unfunded (over funded) actuarial accrued liability	\$ 179,307

GASB 27 INFORMATION (as of 12/31/05)

Fiscal year beginning	January 1, 2007
Annual required contribution (ARC)	\$ 29,496
Amortization factor used	0.053632

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2004 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 8 - PENSION PLANS (CONTINUED)

Annual Pension Cost

<u>Year Ended December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 25,222	100%	-0-
2004	23,618	100%	-0-
2005	23,784	100%	-0-

The Authority was required to contribute \$23,784 for the year ended December 31, 2006 (based upon Montmorency County valuation). Payments were based on contribution calculations made by MERS.

<u>Actuarial Valuation Date December 31,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % Of Covered Payroll</u>
2003	\$ 112,643	\$ 193,940	\$ 81,297	58%	\$ 159,821	51.00%
2004	145,128	205,430	60,302	71%	157,396	38.00%
2005	507,573	686,880	179,307	74%	158,129	113.00%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, and 2000 valuations. The funding method was changed to entry age normal for the 1993 valuation.

NOTE 9 - DEFERRED COMPENSATION PLAN

PRIMARY GOVERNMENT

Montmorency County offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all County employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

GASB 32 does not require including the deferred compensation balances in a trust and agency fund as has been the case in previous years.

NOTE 10 - POST EMPLOYMENT HEALTH CARE BENEFITS

PRIMARY GOVERNMENT

In addition to pension benefits described in Note 8, the County employment agreement with the Sheriff's department employees and the personnel policy for other county employees provides for certain post employment health care coverage. All County employees must have 15 years of service and be fifty five to receive the benefits. Benefits are received for life for the retiree only. No dependent care coverage is paid for by the County. During 2006 fifteen individuals were eligible for these benefits and the total cost incurred approximated \$73,834.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 10 - POST EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

In addition to pension benefits described in Note 8, the discretely presented component unit Road Commission has annually made a motion which provides for certain post employment health care coverage. Presently \$487 per month would be paid towards health insurance coverage for any retired employee. During 2006, six retirees received this benefit and \$35,037 in premiums were paid on their behalf.

DISCRETELY PRESENTED COMPONENT UNIT – SOLID WASTE MANAGEMENT AUTHORITY

In addition to pension benefits described in Note 8, the county employment agreement with the Sheriffs department employees and the personnel policy for other county employees provides for certain post employment health care coverage. All county employees must have 15 years of service and be fifty five to receive the benefits. Benefits are received for life for the retiree only. No dependent care coverage is paid for by the County. During 2006 two individuals were eligible for these benefits and the total cost incurred approximated \$10,649. This was paid on behalf of former eligible Authority employees.

NOTE 11 - CLOSURE AND POSTCLOSURE CARE COSTS

DISCRETELY PRESENTED COMPONENT UNIT – SOLID WASTE MANAGEMENT AUTHORITY

State and federal laws and regulations require that the Solid Waste Management Authority place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$3,883,614 as of December 31, 2006, which is based on all cells completed except for the current cell A - Phase III which is 27.2% filled based upon engineer estimates. At recent rates of refuse received the current cell has an estimated twenty-four months remaining capacity. The estimated total current cost of the landfill closure and post closure is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2006. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. A new cell is complete and began accepting waste as of February 1, 2006. As of December 31, 2006 that cell is 27.2% full according to the landfill engineer's estimate.

The Solid Waste Management Authority is required by state and federal laws and regulations to make annual contributions to finance closure and postclosure care. The County feels it is in compliance with these requirements, and at December 31, 2006, certificates of deposit and other investments in the amount of \$2,041,946 are held for these purposes. It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs (including inadequate earnings on investments, if any) and additional costs that might arise from changes in postclosure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both. Governmental Accounting Standards Board Statement No. 18 describes the accounting requirements for solid waste landfill closure and postclosure care costs. The estimated expense for closure and postclosure care costs for 2006 was \$515,399.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 12 - RISK MANAGEMENT

PRIMARY GOVERNMENT

The County is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

The County participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage and property damage coverage. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund (i.e., the Insurance Fund) using premiums paid into it by other funds of the government. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs. The County is a State pool member and has deductibles which differ for each type of coverage.

The County is a member of the Michigan Counties Workers' Compensation Fund. Full statutory coverage for worker's disability compensation and employers' liability is guaranteed by the fund for Michigan operations through authority granted by the State of Michigan under Chapter 6, Section 418.611.

At December 31, 2006, there were no claims which exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

The Road Commission is self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund and also for general liability, vehicle coverage and building coverage. An annual premium is paid to the association and premium rebates or additional amounts due are calculated annually based upon claim history experienced by the Association.

DISCRETELY PRESENTED COMPONENT UNIT – SOLID WASTE MANAGEMENT AUTHORITY

The Authority is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 12 - RISK MANAGEMENT (CONTINUED)

The Authority participates in the Michigan Municipal Risk Management Authority (MMRMA) for general liability and property damage coverage. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund (i.e., the Insurance Fund) using premiums paid into it by other funds of the government. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs. The Authority is a State pool member and has deductibles which differ for each type of coverage.

The Authority is a member of the Michigan Counties Workers' Compensation Fund. Full statutory coverage for worker's disability compensation and employers' liability is guaranteed by the fund for Michigan operations through authority granted by the State of Michigan under Chapter 6, Section 418.611.

At December 31, 2006, there were no claims which exceeded insurance coverage. The Authority had no significant reduction in insurance coverage from previous years.

NOTE 13 - EQUIPMENT LEASES

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

The Road Commission entered into long term equipment leases as follows

<u>Equipment Item</u>	<u>Lease Maturity Date</u>	<u>Monthly Lease Payment</u>	<u>Guaranteed Purchase Amount</u>
CAT 950GII Wheel Loader	11/15/11	\$ 1,452	77,452
CAT 928G Wheel Loader	09/15/11	825	50,825
CAT 930G Wheel Loader	09/15/11	824	57,324
CAT 140H Motor Grader	12/15/11	1,627	101,627
CAT 140H Motor Grader	11/15/11	1,579	101,579
CAT 143H Motor Grader	09/15/11	1,404	101,404
CAT 613 Scraper	05/15/07	<u>2,758</u>	120,000
		<u>\$ 10,469</u>	

MONTMORENCY COUNTY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2006

NOTE 14 – REVENUE SHARING RESERVE FUND / TAX LEVY

During 2004 the State of Michigan enacted legislation creating the Revenue Sharing Reserve Fund. All Michigan counties were required to set up the fund which will be used to accumulate an additional tax levy which will, over a three year period amount to the 2004 total general operating levy. The county tax levy was previously collected between December and February and will, over the three year period, be switched to July through September. The funds can be transferred annually for general operational use based upon a State mandated amount. The effect is to collect one years tax in advance of previous collections. These funds will be used to offset the loss of State Revenue Sharing. In effect, a previous State obligation has been transferred to the local taxpayers.

The fund recorded taxes as of December 31, 2006 as revenue, in accordance with State mandated guidelines, which is a change in the way property taxes have previously been recognized. These financial statements include County general operating taxes equal to 1 1/3 years levy which reports \$695,450 more taxes than if the previous method of recording taxes had been consistently applied.

NOTE 15 – LITIGATION

In the normal course of its activities, the County is a party to various legal actions and subject to certain asserted claims and assessments. Although other actions have been brought, the County has not experienced any additional significant losses or costs. It is the County's opinion that the outcome of any pending actions will not have a material effect on the County's financial position or results of operations.

NOTE 16 – SUBSEQUENT EVENTS

The County Board on December 27, 2006 authorized a borrowing of \$1,000,000 General Obligation Limited Tax Notes, Series 2007 to help in funding the buy out of delinquent taxes. The notes will be payable on or before March 1, 2009. The borrowing occurred in May of 2007.

The county board has authorized and signed contracts to complete a renovation of the old courthouse. The total cost of the renovation is not to exceed \$750,000 including architect fees and construction costs. The majority of the work will be completed after December 31, 2006 and prior to June 1, 2007. The project will be funded from the Tax Revolving Fund.

REQUIRED SUPPLEMENTARY INFORMATION

MONTMORENCY COUNTY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes and Penalties	\$ 2,275,970	\$ 2,275,970	\$ 2,377,498	\$ 101,528
Licenses and Permits	6,700	6,700	6,808	108
Intergovernmental Revenue:				
Federal	24,080	24,368	27,467	3,099
State	210,303	205,303	207,256	1,953
Charges for Services	706,140	706,458	735,061	28,603
Fines and Forfeits	6,000	6,000	5,390	(610)
Interest and Rents	35,000	37,000	73,319	36,319
Other Revenue	<u>49,375</u>	<u>152,697</u>	<u>282,373</u>	<u>129,676</u>
 TOTAL REVENUES	 <u>3,313,568</u>	 <u>3,414,496</u>	 <u>3,715,172</u>	 <u>300,676</u>
 EXPENDITURES				
Current				
Legislative	110,572	106,021	105,483	538
Judicial	574,111	578,704	577,358	1,346
General Government	1,284,366	1,319,895	1,288,729	31,166
Public Safety	1,357,513	1,482,405	1,476,721	5,684
Public Works	-	-	-	-
Health and Welfare	167,496	206,452	200,469	5,983
Other	116,028	86,208	86,031	177
Capital Outlay	<u>46,750</u>	<u>505,155</u>	<u>498,895</u>	<u>6,260</u>
 TOTAL EXPENDITURES	 <u>3,656,836</u>	 <u>4,284,840</u>	 <u>4,233,686</u>	 <u>51,154</u>
 REVENUES OVER (UNDER) EXPENDITURES	 <u>(343,268)</u>	 <u>(870,344)</u>	 <u>(518,514)</u>	 <u>351,830</u>
 OTHER FINANCING SOURCES (USES)				
Transfers In	299,068	689,357	590,538	(98,819)
Transfers (Out)	<u>(269,291)</u>	<u>(213,629)</u>	<u>(160,224)</u>	<u>53,405</u>
 TOTAL OTHER FINANCING SOURCES (USES)	 <u>29,777</u>	 <u>475,728</u>	 <u>430,314</u>	 <u>(45,414)</u>
 REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	 <u>(313,491)</u>	 <u>(394,616)</u>	 <u>(88,200)</u>	 <u>306,416</u>
 FUND BALANCES, BEGINNING OF YEAR	 <u>313,491</u>	 <u>394,616</u>	 <u>394,616</u>	 <u>-</u>
 FUND BALANCES, END OF YEAR	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 306,416</u>	 <u>\$ 306,416</u>

See Accountant's Compilation Report

**MONTMORENCY COUNTY
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER SOURCES--BY SOURCE
BUDGET AND ACTUAL
DECEMBER 31, 2006**

	<u>BUDGETED AMOUNT</u>			<u>VARIANCE WITH FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>OVER (UNDER)</u>
TAXES AND PENALTIES				
Current Property Taxes	\$ 2,166,982	\$ 2,166,982	\$ 2,268,569	\$ 101,587
Other	<u>108,988</u>	<u>108,988</u>	<u>108,929</u>	<u>(59)</u>
TOTAL TAXES AND PENALTIES	<u>2,275,970</u>	<u>2,275,970</u>	<u>2,377,498</u>	<u>101,528</u>
LICENSES AND PERMITS				
Dog and Kennel Licenses	3,900	3,900	4,047	147
Gun Permits	1,000	1,000	840	(160)
Marriage Licenses	<u>1,800</u>	<u>1,800</u>	<u>1,921</u>	<u>121</u>
TOTAL LICENSES AND PERMITS	<u>6,700</u>	<u>6,700</u>	<u>6,808</u>	<u>108</u>
FEDERAL GRANTS				
Emergency Services	9,000	9,288	5,717	(3,571)
Prosecuting Attorney Cooperative Reimbursement	<u>15,080</u>	<u>15,080</u>	<u>21,750</u>	<u>6,670</u>
TOTAL FEDERAL GRANTS	<u>24,080</u>	<u>24,368</u>	<u>27,467</u>	<u>3,099</u>
STATE GRANTS				
Probate Judges Salary	25,750	20,750	22,947	2,197
Salary Standardization	18,100	18,100	16,460	(1,640)
Court Equity Distribution	65,145	65,145	65,306	161
Township Liquor Licenses	12,000	12,000	12,549	549
LEPC Planning Grant	625	625	626	1
Voters Registration	-	-	236	236
Cigarette Tax	6,056	6,056	6,092	36
Welfare Fraud	-	-	135	135
Juror Reimbursement	-	-	-	-
Convention Facilities	57,577	57,577	57,333	(244)
Drunk Driving	3,050	3,050	2,869	(181)
Victim's Rights	<u>22,000</u>	<u>22,000</u>	<u>22,703</u>	<u>703</u>
TOTAL STATE GRANTS	<u>210,303</u>	<u>205,303</u>	<u>207,256</u>	<u>1,953</u>

(Continued)

See Accountant's Compilation Report

MONTMORENCY COUNTY
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER SOURCES--BY SOURCE
BUDGET AND ACTUAL (CONTINUED)
DECEMBER 31, 2006

	<u>BUDGETED AMOUNT</u>			<u>VARIANCE WITH FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>OVER (UNDER)</u>
CHARGES FOR SERVICES				
District Court costs and Fees	\$ 198,500	\$ 198,500	\$ 177,742	\$ (20,758)
Circuit Court Costs and Fees	32,750	32,750	32,733	(17)
Friend of Court	350	350	976	626
Prosecutor Services	8,300	8,618	9,562	944
Animal Control	1,500	1,500	3,138	1,638
Probate Court Costs and Fees	8,360	8,360	7,294	(1,066)
Clerk - Services	12,780	12,030	17,644	5,614
Equalization Services	22,000	22,000	23,749	1,749
Treasurer Services	6,050	6,800	25,024	18,224
Register of Deeds Services	114,250	114,250	111,582	(2,668)
Register Transfer Tax	42,000	42,000	40,076	(1,924)
Sheriff Services	13,000	13,000	12,798	(202)
Soil Erosion Services	8,500	8,500	2,925	(5,575)
Jail	219,800	219,800	251,818	32,018
Landfill Administration	18,000	18,000	18,000	-
TOTAL CHARGES FOR SERVICES	706,140	706,458	735,061	28,603
FINES & FORFEITURES				
District Bond Forfeit	6,000	6,000	5,390	(610)
TOTAL FINES AND FORFEITURES	6,000	6,000	5,390	(610)
INTEREST EARNED	35,000	37,000	73,319	36,319
OTHER REVENUE				
District Health Utility Reimbursement	4,400	4,400	1,871	(2,529)
Court Year End Settlements	-	-	29,053	29,053
Donations	375	8,545	4,439	(4,106)
Youth Officer Reimbursement	22,600	22,600	20,000	(2,600)
Insurance Proceeds - Storm Damage	-	75,852	169,162	93,310
Miscellaneous Refunds and Reimbursements	22,000	41,300	57,848	16,548
TOTAL OTHER REVENUE	49,375	152,697	282,373	129,676

(Continued)

See Accountant's Compilation Report

MONTMORENCY COUNTY
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER SOURCES--BY SOURCE
BUDGET AND ACTUAL (CONTINUED)
DECEMBER 31, 2006

	<u>BUDGETED AMOUNT</u>			<u>VARIANCE WITH FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>OVER (UNDER)</u>
TOTAL REVENUE	\$ 3,313,568	\$ 3,414,496	\$ 3,715,172	\$ 300,676
OTHER FINANCING SOURCES				
Operating Transfers In:				
Tax Payment Funds	115,187	316,000	316,000	-
Revenue Sharing Reserve	178,881	178,881	179,401	520
Register of Deeds Automation	-	6,250	6,250	-
Budget Stabilization	-	87,000	86,894	(106)
Other Transfers in	-	96,046	-	(96,046)
Jail commissary	5,000	5,180	1,993	(3,187)
TOTAL OTHER FINANCING SOURCES	299,068	689,357	590,538	(98,819)
TOTAL REVENUES AND OTHER SOURCES	\$ 3,612,636	\$ 4,103,853	\$ 4,305,710	\$ 201,857

(Concluded)

See Accountant's Compilation Report

MONTMORENCY COUNTY
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL
DECEMBER 31, 2006

	<u>BUDGETED AMOUNT</u>			<u>VARIANCE WITH FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>(OVER) UNDER</u>
LEGISLATIVE				
Board of Commissioners	\$ 110,572	\$ 106,021	\$ 105,483	\$ 538
TOTAL LEGISLATIVE	<u>110,572</u>	<u>106,021</u>	<u>105,483</u>	<u>538</u>
JUDICIAL				
Circuit Court	134,757	136,848	136,847	1
Family Court	41,768	41,913	41,909	4
District Court	154,050	167,852	167,740	112
Friend of Court	31,445	31,445	31,445	-
Probate Court	95,997	86,907	86,651	256
Jury Commission	1,326	1,081	1,067	14
Court Appointed Attorney	61,000	61,001	61,000	1
Other	<u>53,768</u>	<u>51,657</u>	<u>50,699</u>	<u>958</u>
TOTAL JUDICIAL	<u>574,111</u>	<u>578,704</u>	<u>577,358</u>	<u>1,346</u>
GENERAL GOVERNMENT				
County Coordinator	80,429	99,092	99,055	37
Clerk	148,726	150,746	150,729	17
Data Processing	77,015	77,385	71,304	6,081
Planning Commission	1,000	1,000	-	1,000
General Services	110,732	78,178	75,143	3,035
Treasurer	135,937	135,937	126,267	9,670
Equalization	80,273	104,500	104,390	110
Cooperative Extension	24,850	33,190	33,170	20
Elections	18,053	11,253	10,016	1,237
Courthouse & Grounds	132,680	106,790	103,176	3,614
Prosecuting Attorney	211,941	221,616	221,176	440
Register of Deeds	94,330	115,925	115,837	88
County Attorney	-	20,000	17,181	2,819
Drain Commissioner	14,258	14,417	14,400	17
Other	<u>154,142</u>	<u>149,866</u>	<u>146,885</u>	<u>2,981</u>
TOTAL GENERAL GOVERNMENT	<u>1,284,366</u>	<u>1,319,895</u>	<u>1,288,729</u>	<u>31,166</u>

(Continued)

See Accountant's Compilation Report

MONTMORENCY COUNTY
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL (CONTINUED)
DECEMBER 31, 2006

	<u>BUDGETED AMOUNT</u>			<u>VARIANCE WITH FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>(OVER) UNDER</u>
PUBLIC SAFETY				
Sheriff	\$ 575,768	\$ 590,303	\$ 589,949	\$ 354
H.U.N.T.	20,273	20,273	20,273	-
Jail	515,032	621,101	620,881	220
Emergency Services	16,825	17,400	17,203	197
Soil Erosion	625	425	-	425
Animal Control	2,485	2,760	1,871	889
Auto Repair	20,300	28,746	28,739	7
Lease/Purchase Payment Police Cars	22,498	22,498	22,498	-
Other	183,707	178,899	175,307	3,592
TOTAL PUBLIC SAFETY	<u>1,357,513</u>	<u>1,482,405</u>	<u>1,476,721</u>	<u>5,684</u>
HEALTH AND WELFARE				
Health Department	67,297	110,844	110,829	15
Substance Abuse	30,155	30,465	30,458	7
Medical Examiner	6,814	5,314	4,590	724
Mental Health	31,208	31,208	31,207	1
State Institutions	5,000	4,650	97	4,553
Social Welfare	6,501	7,221	7,007	214
Veterans' Service Board	5,865	4,000	3,600	400
Veterans' Burial	7,000	5,967	5,959	8
Other	7,656	6,783	6,722	61
TOTAL HEALTH AND WELFARE	<u>167,496</u>	<u>206,452</u>	<u>200,469</u>	<u>5,983</u>
OTHER				
Dues and Memberships	11,778	11,958	11,897	61
Retiree Health Insurance	77,950	73,950	73,834	116
Appropriations	26,300	300	300	-
TOTAL OTHER	<u>116,028</u>	<u>86,208</u>	<u>86,031</u>	<u>177</u>
CAPITAL OUTLAY	<u>46,750</u>	<u>505,155</u>	<u>498,895</u>	<u>6,260</u>
TOTAL EXPENDITURES	<u>3,656,836</u>	<u>4,284,840</u>	<u>4,233,686</u>	<u>51,154</u>

See Accountant's Compilation Report

**MONTMORENCY COUNTY
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY
BUDGET AND ACTUAL (CONTINUED)
DECEMBER 31, 2006**

	<u>BUDGETED AMOUNT</u>			<u>VARIANCE WITH FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>(OVER) UNDER</u>
OPERATING TRANSFERS				
Law Enforcement Grant	\$ 33,941	\$ 10,759	\$ 10,759	\$ -
Law Library	6,865	6,865	6,865	-
ROD Automation	-	-	-	-
Budget Stabilization	-	-	-	-
Equipment Replacement	-	-	-	-
Child Care	139,880	58,355	5,000	53,355
Remonumentation	-	-	-	-
County Improvement	-	49,000	49,000	-
Building Authority - Debt Service	<u>88,605</u>	<u>88,650</u>	<u>88,600</u>	<u>50</u>
TOTAL OPERATING TRANSFERS	<u>269,291</u>	<u>213,629</u>	<u>160,224</u>	<u>53,405</u>
TOTAL EXPENDITURES AND OPERATING TRANSFERS	<u>\$ 3,926,127</u>	<u>\$ 4,498,469</u>	<u>\$ 4,393,910</u>	<u>\$ 104,559</u>

(Concluded)

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**MONTMORENCY COUNTY
REVENUE SHARING RESERVE
SCHEDULE OF REVENUES, EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	\$ -	\$ 695,450	\$ 695,450	\$ -
Licenses and Permits	-	-	-	-
Intergovernmental Revenue				
Federal	-	-	-	-
State	-	-	-	-
Other Local Units	-	-	-	-
Charges for Services	-	-	-	-
Fines and Forfeits	-	-	-	-
Interest and Rents	-	-	-	-
Other Revenue	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>-</u>	<u>695,450</u>	<u>695,450</u>	<u>-</u>
EXPENDITURES				
Judicial	-	-	-	-
General Government	-	-	-	-
Public Safety	-	-	-	-
Health and Welfare	-	-	-	-
Recreation and Cultural	-	-	-	-
Debt Service				
Principal	-	-	-	-
Interest and Other Charges	-	-	-	-
Capital Outlay	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>695,450</u>	<u>695,450</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers (Out)	<u>(695,450)</u>	<u>(695,450)</u>	<u>(179,401)</u>	<u>516,049</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(695,450)</u>	<u>(695,450)</u>	<u>(179,401)</u>	<u>516,049</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(695,450)</u>	<u>-</u>	<u>516,049</u>	<u>516,049</u>
FUND BALANCES, BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>1,138,932</u>	<u>1,138,932</u>
FUND BALANCES, END OF YEAR	<u>\$ (695,450)</u>	<u>\$ -</u>	<u>\$ 1,654,981</u>	<u>\$ 1,654,981</u>

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OTHER SUPPLEMENTARY INFORMATION

**MONTMORENCY COUNTY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	SPECIAL			
	GYPSY MOTH	BUILDING CODE	RESIDENTIAL AUDIT	ROD AUTOMATION
ASSETS				
Cash	\$ 105,748	\$ 12,103	\$ 40,604	\$ 39,942
Investments	-	-	-	-
Receivables:				
Taxes	-	-	-	-
Accounts	-	-	-	-
Mortgages/Notes	-	-	-	-
Due From Other Funds	-	-	-	-
Due From Other Governmental Units	-	-	-	-
TOTAL ASSETS	<u>\$ 105,748</u>	<u>\$ 12,103</u>	<u>\$ 40,604</u>	<u>\$ 39,942</u>
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts Payable	\$ -	\$ 1,008	\$ -	\$ 211
Accrued Liabilities	-	2,295	-	-
Due to Other Funds	-	-	-	-
Due to Other Governmental Units	-	-	20,956	-
Advances From Other Governmental Units	-	-	-	-
Deferred Revenue	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>3,303</u>	<u>20,956</u>	<u>211</u>
FUND BALANCE				
Reserved	105,748	8,800	-	39,731
Unreserved	-	-	19,648	-
TOTAL FUND BALANCES	<u>105,748</u>	<u>8,800</u>	<u>19,648</u>	<u>39,731</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 105,748</u>	<u>\$ 12,103</u>	<u>\$ 40,604</u>	<u>\$ 39,942</u>

See Accountant's Compilation Report

REVENUE FUNDS

911 SERVICES	CORRECTIONS OFFICER TRAINING	LAW ENFORCEMENT GRANTS	LAW ENFORCEMENT TRAINING	LAW LIBRARY	COUNTY LIBRARY
\$ 5,593	\$ 10,139	\$ 3,703	\$ 426	\$ 1,205	\$ 147,865
80,000	-	-	-	-	-
-	-	-	-	-	258,896
12,253	-	283	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
23,947	-	64,364	-	-	-
<u>\$ 121,793</u>	<u>\$ 10,139</u>	<u>\$ 68,350</u>	<u>\$ 426</u>	<u>\$ 1,205</u>	<u>\$ 406,761</u>
\$ 3,902	\$ -	\$ 4,515	\$ -	\$ 507	\$ 4,079
6,769	-	1,893	-	-	5,835
-	-	2,675	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	258,896
10,671	-	9,083	-	507	268,810
111,122	-	-	-	-	137,951
-	10,139	59,267	426	698	-
111,122	10,139	59,267	426	698	137,951
<u>\$ 121,793</u>	<u>\$ 10,139</u>	<u>\$ 68,350</u>	<u>\$ 426</u>	<u>\$ 1,205</u>	<u>\$ 406,761</u>

(Continued)

See Accountant's Compilation Report

**MONTMORENCY COUNTY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	SPECIAL		
	BUDGET STABILIZATION	HUD	ECONOMIC DEVELOPMENT
ASSETS			
Cash	\$ 24,853	\$ 138,449	\$ 22,973
Investments	200,000	-	-
Receivables:			
Taxes	-	-	-
Accounts	-	-	-
Mortgages	-	-	212,415
Due From Other Funds	-	-	-
Due From Other Governmental Units	-	-	-
TOTAL ASSETS	\$ 224,853	\$ 138,449	\$ 235,388
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Accounts Payable	\$ -	\$ -	\$ 119
Accrued Liabilities	-	-	-
Due to Other Funds	-	-	-
Due to Other Governmental Units	-	-	-
Advances From Other Governmental Units	-	-	-
Deferred Revenue	-	-	212,415
TOTAL LIABILITIES	-	-	212,534
FUND BALANCE			
Reserved	-	138,449	22,854
Unreserved	224,853	-	-
TOTAL FUND BALANCES	224,853	138,449	22,854
TOTAL LIABILITIES AND FUND BALANCES	\$ 224,853	\$ 138,449	\$ 235,388

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REVENUE FUNDS

EQUIPMENT REPLACEMENT	STATE DOMESTIC PREPAREDNESS	MICHIGAN SAFE KIDS	DARE	VICTIM ADVOCACY	CHILD CARE
\$ 12,798	\$ 49	\$ 167	\$ 3,914	\$ 50	\$ 11,951
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	10,696
<u>\$ 12,798</u>	<u>\$ 49</u>	<u>\$ 167</u>	<u>\$ 3,914</u>	<u>\$ 50</u>	<u>\$ 22,647</u>
\$ -	\$ -	\$ -	\$ 192	\$ -	\$ 8,133
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	192	-	8,133
-	49	-	-	-	-
<u>12,798</u>	<u>-</u>	<u>167</u>	<u>3,722</u>	<u>50</u>	<u>14,514</u>
<u>12,798</u>	<u>49</u>	<u>167</u>	<u>3,722</u>	<u>50</u>	<u>14,514</u>
<u>\$ 12,798</u>	<u>\$ 49</u>	<u>\$ 167</u>	<u>\$ 3,914</u>	<u>\$ 50</u>	<u>\$ 22,647</u>

(Continued)

See Accountant's Compilation Report

**MONTMORENCY COUNTY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	SPECIAL			
	VETERANS' AFFAIRS	VETERANS' TRUST	REMONUMEN- TATION	COMMISSION ON AGING
ASSETS				
Cash	\$ 23,692	\$ 729	\$ 203	\$ 327
Investments	-	-	-	-
Receivables:				
Taxes	-	-	-	217,028
Accounts	-	-	-	-
Mortgages/Notes	-	-	-	-
Due From Other Funds	-	-	-	-
Due From Other Governmental Units	-	-	-	-
TOTAL ASSETS	<u>\$ 23,692</u>	<u>\$ 729</u>	<u>\$ 203</u>	<u>\$ 217,355</u>
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Accrued Liabilities	-	-	-	-
Due to Other Funds	-	-	-	-
Due to Other Governmental Units	-	-	-	-
Advances From Other Governmental Units	-	-	-	-
Deferred Revenue	-	-	-	217,028
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>217,028</u>
FUND BALANCE				
Reserved	23,692	729	203	327
Unreserved	-	-	-	-
TOTAL FUND BALANCES	<u>23,692</u>	<u>729</u>	<u>203</u>	<u>327</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 23,692</u>	<u>\$ 729</u>	<u>\$ 203</u>	<u>\$ 217,355</u>

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REVENUE FUNDS		DEBT SERVICE	CAPITAL PROJECT		
COUNTY IMPROVEMENT	JAIL COMMISSARY	BUILDING AUTHORITY DEBT SERVICE	BUILDING AUTHORITY CAPITAL PROJECT	LAKE LEVELS CAPITAL PROJECT	TOTAL
\$ 10,705	\$ 4,685	\$ 1,728	\$ 460	5,671	\$ 630,732
-	-	-	-	-	280,000
-	-	-	-	-	475,924
-	139	-	-	-	12,675
-	-	-	-	-	212,415
-	-	-	-	-	-
-	-	-	-	-	99,007
<u>\$ 10,705</u>	<u>\$ 4,824</u>	<u>\$ 1,728</u>	<u>\$ 460</u>	<u>\$ 5,671</u>	<u>\$ 1,710,753</u>
\$ -	\$ 580	\$ -	\$ -	\$ -	\$ 23,246
-	-	-	-	-	16,792
-	-	-	-	5,000	7,675
-	-	-	-	-	20,956
-	-	-	-	-	-
-	-	-	-	-	688,339
-	580	-	-	5,000	757,008
-	-	1,728	460	671	592,514
<u>10,705</u>	<u>4,244</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>361,231</u>
<u>10,705</u>	<u>4,244</u>	<u>1,728</u>	<u>460</u>	<u>671</u>	<u>953,745</u>
<u>\$ 10,705</u>	<u>\$ 4,824</u>	<u>\$ 1,728</u>	<u>\$ 460</u>	<u>\$ 5,671</u>	<u>\$ 1,710,753</u>

(Concluded)

See Accountant's Compilation Report

MONTMORENCY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	<u>SPECIAL</u>			
	<u>GYPSY MOTH</u>	<u>BUILDING CODE</u>	<u>RESIDENTIAL AUDIT</u>	<u>ROD AUTOMATION</u>
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	129,062	-	-
Intergovernmental Revenue				
Federal	-	-	-	-
State	-	-	-	-
Other Local Units	-	-	-	-
Charges for Services	-	-	10,392	25,616
Fines and Forfeits	-	-	-	-
Interest and Rents	-	-	-	-
Other Revenue	-	-	-	-
TOTAL REVENUES	<u>-</u>	<u>129,062</u>	<u>10,392</u>	<u>25,616</u>
EXPENDITURES				
Current				
Judicial	-	-	-	-
General Government	-	-	2,000	2,547
Public Safety	-	159,900	-	-
Health and Welfare	-	-	-	-
Recreation and Cultural	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and Other Charges	-	-	-	-
Capital Outlay	-	4,963	-	6,035
TOTAL EXPENDITURES	<u>-</u>	<u>164,863</u>	<u>2,000</u>	<u>8,582</u>
REVENUES OVER (UNDER) EXPENDITURES	-	(35,801)	8,392	17,034
OTHER FINANCING SOURCES (USES)				
Proceeds from Installment Debt	-	-	-	-
Transfers In	-	6,000	-	-
Transfers (Out)	-	-	-	(6,250)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>6,000</u>	<u>-</u>	<u>(6,250)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	-	(29,801)	8,392	10,784
FUND BALANCES, BEGINNING OF YEAR	<u>105,748</u>	<u>38,601</u>	<u>11,256</u>	<u>28,947</u>
FUND BALANCES, END OF YEAR	<u>\$ 105,748</u>	<u>\$ 8,800</u>	<u>\$ 19,648</u>	<u>\$ 39,731</u>

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REVENUE FUNDS

911 SERVICES	CORRECTION OFFICER TRAINING	LAW ENFORCEMENT GRANTS	LAW ENFORCEMENT TRAINING	LAW LIBRARY	COUNTY LIBRARY
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 249,590
-	-	-	-	-	-
-	-	17,000	-	-	-
98,248	-	89,200	2,615	-	7,451
-	-	-	-	-	-
149,411	4,440	-	-	-	-
-	-	-	-	2,000	35,777
-	-	-	-	-	7,664
-	-	723	-	-	8,084
<u>247,659</u>	<u>4,440</u>	<u>106,923</u>	<u>2,615</u>	<u>2,000</u>	<u>308,566</u>
-	-	-	-	8,593	-
-	-	-	-	-	-
257,481	2,106	93,223	2,904	-	-
-	-	-	-	-	-
-	-	-	-	-	279,054
-	-	-	-	-	-
-	-	-	-	-	-
<u>17,213</u>	<u>-</u>	<u>73,266</u>	<u>-</u>	<u>-</u>	<u>9,268</u>
<u>274,694</u>	<u>2,106</u>	<u>166,489</u>	<u>2,904</u>	<u>8,593</u>	<u>288,322</u>
(27,035)	2,334	(59,566)	(289)	(6,593)	20,244
-	-	38,000	-	-	-
-	-	45,759	-	6,865	-
-	-	-	-	-	-
-	-	83,759	-	6,865	-
(27,035)	2,334	24,193	(289)	272	20,244
<u>138,157</u>	<u>7,805</u>	<u>35,074</u>	<u>715</u>	<u>426</u>	<u>117,707</u>
<u>\$ 111,122</u>	<u>\$ 10,139</u>	<u>\$ 59,267</u>	<u>\$ 426</u>	<u>\$ 698</u>	<u>\$ 137,951</u>

(Continued)

See Accountant's Compilation Report

MONTMORENCY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	<u>SPECIAL</u>		
	<u>BUDGET</u>		<u>ECONOMIC</u>
	<u>STABILIZATION</u>	<u>HUD</u>	<u>DEVELOPMENT</u>
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-
Intergovernmental Revenue			
Federal	-	-	40,000
State	-	-	-
Other Local Units	-	-	-
Charges for Services	-	77,286	-
Fines and Forfeits	-	-	-
Interest and Rents	8,215	-	563
Other Revenue	-	-	68,613
	<u>-</u>	<u>-</u>	<u>68,613</u>
TOTAL REVENUES	<u>8,215</u>	<u>77,286</u>	<u>109,176</u>
EXPENDITURES			
Current			
Judicial	-	-	-
General Government	-	-	155,966
Public Safety	-	-	-
Health and Welfare	-	7,820	-
Recreation and Cultural	-	-	-
Debt service			
Principal	-	-	-
Interest and Other Charges	-	-	-
Capital Outlay	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>-</u>	<u>7,820</u>	<u>155,966</u>
REVENUES OVER (UNDER) EXPENDITURES	8,215	69,466	(46,790)
OTHER FINANCING SOURCES (USES)			
Proceeds from Installment Debt	-	-	-
Transfers In	-	-	-
Transfers (Out)	(86,894)	-	-
	<u>(86,894)</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(86,894)</u>	<u>-</u>	<u>-</u>
REVENUES AND OTHER SOURCES OVER (UNDER)			
EXPENDITURES AND OTHER USES	(78,679)	69,466	(46,790)
FUND BALANCES, BEGINNING OF YEAR	<u>303,532</u>	<u>68,983</u>	<u>69,644</u>
FUND BALANCES, END OF YEAR	<u>\$ 224,853</u>	<u>\$ 138,449</u>	<u>\$ 22,854</u>

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REVENUE FUNDS

EQUIPMENT REPLACEMENT	STATE DOMESTIC PREPAREDNESS	MICHIGAN SAFE KIDS	DARE	VICTIM ADVOCACY	CHILD CARE
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	22,000	-	-	-	-
-	-	-	-	-	90,649
-	-	-	-	-	15,000
-	-	-	-	-	38,014
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	4,167	-	-
-	22,000	-	4,167	-	143,663
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,143	-	-
-	-	-	-	-	189,736
-	-	-	-	-	-
-	-	-	-	-	-
5,702	22,063	-	-	-	-
5,702	22,063	-	1,143	-	189,736
(5,702)	(63)	-	3,024	-	(46,073)
-	-	-	-	-	-
-	-	-	-	-	5,000
-	-	-	-	-	-
-	-	-	-	-	5,000
(5,702)	(63)	-	3,024	-	(41,073)
18,500	112	167	698	50	55,587
\$ 12,798	\$ 49	\$ 167	\$ 3,722	\$ 50	\$ 14,514

(Continued)

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MONTMORENCY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	SPECIAL			
	VETERANS' AFFAIRS	VETERANS' TRUST	REMONUMEN- TATION	COMMISSION ON AGING
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ 205,430
Licenses and Permits	-	-	-	-
Intergovernmental Revenue				
Federal	-	-	-	-
State	-	1,796	47,651	-
Other Local Units	-	-	-	-
Charges for Services	-	-	-	-
Fines and Forfeits	-	-	-	-
Interest and Rents	-	-	-	194
Other Revenue	-	-	-	-
TOTAL REVENUES	-	1,796	47,651	205,624
EXPENDITURES				
Current				
Judicial	-	-	-	-
General Government	-	-	49,864	-
Public Safety	-	-	-	-
Health and Welfare	3,513	2,101	-	205,601
Recreation and Cultural	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and Other Charges	-	-	-	-
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	3,513	2,101	49,864	205,601
REVENUES OVER (UNDER) EXPENDITURES	(3,513)	(305)	(2,213)	23
OTHER FINANCING SOURCES (USES)				
Proceeds from Installment Debt	-	-	-	-
Transfers In	-	-	2,000	-
Transfers (Out)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	2,000	-
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(3,513)	(305)	(213)	23
FUND BALANCES, BEGINNING OF YEAR	27,205	1,034	416	304
FUND BALANCES, END OF YEAR	\$ 23,692	\$ 729	\$ 203	\$ 327

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REVENUE FUNDS		DEBT SERVICE	CAPITAL PROJECT		
COUNTY IMPROVEMENT	JAIL COMMISSARY	BUILDING AUTHORITY DEBT SERVICE	BUILDING AUTHORITY CAPITAL PROJECT	LAKE LEVELS CAPITAL PROJECT FUND	TOTAL
\$ -	\$ -	\$ -	\$ -	\$ 170	\$ 455,190
-	-	-	-	-	129,062
-	-	-	-	-	79,000
-	-	-	-	-	337,610
-	-	-	-	-	15,000
-	21,464	-	-	-	326,623
-	-	-	-	-	37,777
-	-	-	-	-	16,636
-	-	-	-	-	81,587
-	21,464	-	-	170	1,478,485
-	-	-	-	-	8,593
-	-	-	-	-	210,377
-	18,597	-	-	8,565	543,919
-	-	-	-	-	408,771
-	-	-	-	-	279,054
-	-	50,000	-	-	50,000
-	-	38,600	-	-	38,600
149,871	-	-	-	-	288,381
149,871	18,597	88,600	-	8,565	1,827,695
(149,871)	2,867	(88,600)	-	(8,395)	(349,210)
-	-	-	-	-	38,000
50,000	-	88,600	-	6,000	210,224
-	(1,993)	-	-	-	(95,137)
50,000	(1,993)	88,600	-	6,000	153,087
(99,871)	874	-	-	(2,395)	(196,123)
110,576	3,370	1,728	460	3,066	1,149,868
\$ 10,705	\$ 4,244	\$ 1,728	\$ 460	\$ 671	\$ 953,745

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Thomas R. Zick CPA, P.C.
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

June 25, 2007

Board of Commissioners
Montmorency County
Atlanta, Michigan 49709

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Montmorency, Michigan as of and for the year ended December 31, 2006, which collectively comprise the County of Montmorency, Michigan's basic financial statements and have issued my report thereon dated June 25, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Montmorency County's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Montmorency County's internal control over financial reporting. Accordingly, I do not express an opinion of the effectiveness of Montmorency County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Montmorency County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Montmorency County's financial statements that is more than inconsequential will not be prevented or detected by Montmorency County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Montmorency County's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montmorency County's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

I noted certain immaterial instances of noncompliance that I have reported to management of Montmorency County in a separate letter dated June 25, 2007.

This report is intended solely for the information and use of management, the Board of Commissioners, federal awarding agencies, pass-through entities, and Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Thomas R. Zick, CPA, P.C.", written in a cursive style.

THOMAS R. ZICK, CPA, P.C.
Certified Public Accountant



Thomas R. Zick CPA, P.C.
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FINANCIAL AUDIT COMMENTS

June 25, 2007

Montmorency County Board of Commissioners
Montmorency County
Atlanta, Michigan, 49709

In planning and performing my audit of the general purpose financial statements of Montmorency County, Michigan, for the year ended December 31, 2006, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure. However, I noted certain matters involving the internal control structure and its operation that I feel should be brought to your attention as follows:

BUDGETS

BUDGETARY PROCEDURES

The Board of Commissioners properly adopted a budget for the General Fund for the year ended December 31, 2006 in accordance with Public Act 621 of 1978, The Uniform budgeting and Accounting Act.

Public Act 621 of 1978, section 18 (1), as amended, provides that a County shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County's actual expenditures and budgeted expenditures for the General Fund has been shown on a functional basis. The approved budget of the County for the General Fund was adopted on a line item basis by activity. The County incurred only minor unfavorable budget variances in the funds which is a major improvement over prior years.

During the year ended December 31, 2006 no expenditures were incurred in excess of the amounts appropriated in the amended budget of the general fund and special revenue fund types of the primary government.

Public Act 621, the Budget Act defines procedures and general formats for all local units of government. The basic format requires a three columnar schedule showing prior year actual number, current year estimated number and the estimated budget for the ensuing year. The County should review that format and use it in the budget process.

Estimated fund balances along with revenue and expenditures should be a part of each fund's budget document.

The budgets, as amended, should be realistic and as close to actual as possible. During 2006 several fund budgets and line items did not meet that criteria as follows:

1. The Revenue Sharing Reserve Fund budget showed tax revenue of \$695,450 and expenditures of the same amount. The actual transfer out was \$178,881.
2. The transfer from the general fund to Child Care Fund showed a budget of \$58,355 when the actual transfer was \$5,000.
3. Budget Stabilization showed a transfer in of \$87,000 when –0- was actually transferred in.
4. The transfers in and transfers out should be budgeted in the appropriate spot based on the State Chart of Accounts not shown in the various departmental areas. Both categories should be recorded at the end of their respective revenue or expenditure categories.

CAPITAL ASSETS

The County has the capital asset schedule prepared, and updated and the balances are reflected in the audit report. There are several things which should be done to assist in updating for 2007 as follows:

1. The additions to the schedule need to be reconciled to the County capital outlay ledger accounts. I suggest that every time the clerk's office codes a check to a capital outlay account a copy of the vendor invoice be made and forwarded to the County Coordinator.
2. At year end the total additions should agree to the total capital outlay expenditures.
3. Details must be maintained for all listed assets that are sold or otherwise disposed.
4. We will assist the County in setting up the asset list on an Excel spreadsheet to compute the depreciation and additions schedules internally.

DEPARTMENTS

LIBRARY –

1. The in-lieu of health insurance incentive was \$150 per month while the County policy is \$125.
2. Vendor invoices presently show no indication of approval for payment. I suggest obtaining a stamp that would give a spot for approving receipt of the goods or services, administrator approval and board approval.

3. A credit card is regularly used by the library, but the procedures required under PA 266 of 1995 have never been formally adopted by the library board. In most instances no bills were attached to the credit card billing. Instead, the bill was the basis for support. All supporting invoices must be attached.

DISTRICT COURT –

1. The two bank accounts for imprest and trust purposes are not presently reconciled to a ledger balance. They must be recorded in the ledger and then timely reconciled each month.

TREASURER –

1. There are numerous Trust and Agency accounts which need to be reconciled and while much of the detail data is not available in the Treasurer's Office, it is my opinion that the Treasurer should take the leadership role in working with the various departments to set up procedures so that these accounts are reconciled periodically, preferably monthly.
2. The County investment policy should be periodically reviewed for potential update and reaffirmed at the annual organizational meeting. This is more critical now with the large array of financial products available in the market place today.
3. Journal entries for expenditure type items should be originated by the clerk's office. During 2006 several payroll related adjustments were posted by the treasurer's office in June 255 – Principal Resident Audit. The treasurer can request the adjustments, but they should be originated by the clerk's office.
4. Fees collected for Avery Township tax collection should be transferred from the trust and agency account to the charges for services category in the general fund at least annually.
5. The Principal Resident Audit Fund fees become available for general fund use after three years and should be transferred when available.
6. The authorized signers on the National City escrow account need to be updated. A former employee is still listed as an authorized signer.

SHERIFF –

1. The inmate trust bank account is not recorded on the County ledger and is not reconciled by the treasurer's office. This must be done. The software used by the sheriff's office should be accessible by the treasurer and used in the reconciliation process.
2. the grant/loan process to purchase a boat and vehicle was an extensive process and still is not complete. Final reimbursement has not been received from the USDA as of this date. The boat was paid for 6/19/06 and the final reimbursement has not been received over one year later.

The purchase contract indicates that the auto dealer was selling both the boat and the vehicle to the County when in fact, the boat dealer was paid for the boat more than five months prior to the actual signing of the purchase contract.

Final closing documents on the USDA loan could not be located. Another copy was requested and received from the attorney who handled the transaction.

OTHER / GENERAL

1. During 2006, after the union contract was settled and other non-union employees retroactively received a compensation increase, the County retroactively raised elected officials salaries, which is a violation of state statute.
2. The County Board should annually approve all of the County depositories, not just the primary ones, preferably at the organizational meeting in January. This could be done from a list prepared by the Treasurer.
3. The County still charges liability insurance and various fringe benefits such as unemployment, worker compensation, and retirement to an 800 account rather than to the individual departments. GASB #34 requires these expenses be allocated to the proper department and this has been done at year end. I suggest it be done throughout the year, but at a minimum it should be done at year end.
4. The County transferred \$50,000 directly to the County Improvement Fund from the Tax Revolving Fund. All Tax Revolving fund transfers should be to the General fund. Transfer from the General Fund can then be made by board resolution.
5. Deeds to all of the County properties should be located and then held in a central location. The deed to the recently purchased health department building was in a file which at some point in the future might be disposed of.
6. The County has, for years, adopted its budgets at or near the last meeting of December. State statute requires that the budget be adopted at your October meeting.
7. The County Board needs to approve its tax millage using the actual millage rate calculated by the equalization department. With the current timing on tax collection the General Fund millage should be approved in June in anticipation of the July 1 tax collection date while the other County voted millages such as Commission on Aging and Library should be approved at your October meeting.
8. The Board of Commissioners meet regularly throughout the year in committee such as claims and accounts, finance, building and grounds, etc. Minutes have never been formalized for these meetings even though it items discussed in those meetings become a basis for decisions made by the full board.

I suggest that at a minimum informal minutes showing date, attendance, items discussed and time adjourned be maintained on file in the coordinator's office.

9. During 2006, prior to implementing a revised County procurement policy, the County accepted bids for a new copy machine for Building Code/Equalization. At the March 22, 2006 meeting the board approved the purchase for \$12,500 with the building committee handling the transaction.

When the copier was purchased, the vendor bill was for exactly \$12,500 which was \$517 more than his bid price. The vendor maintenance agreement was also considerably higher than other bidders.

10. GASB #45 must be implemented for Montmorency county for the year ending December 31, 2009. This will probably require an actuarial study in order to arrive at the appropriate numbers, and will require the on-going reporting of this in future periods.

11. The actuarial liability for under funding the County pension plan through MERS increased by \$645,753 from \$2,427,145 in 2005 to \$3,072,898 in 2006.

MILEAGE REIMBURSEMENT

The Department of Treasury has recently attempted to clarify the legality of payment for mileage reimbursement from home to the County building and back for county meetings. County commissioners can receive these reimbursements, however, it is Treasury's position that this is a personal expenditure under Internal Revenue Service guidelines as well as Michigan Income Tax requirements and should be included in the commissioner's W-2 wage.

It is further their position that non-commissioners appointed to various boards such as housing, jury, etc. are not permitted to receive a mileage allowance.

SOLID WASTE MANAGEMENT AUTHORITY

CREDIT CARD POLICY

Public Act 266 of 1995 requires all governmental entities using a credit card to have adopted by resolution, a written policy with certain specific provisions. The authority presently uses a credit card and has not adopted the required resolution.

MILEAGE REIMBURSEMENT

The Department of Treasury has recently attempted to clarify the legality of payment for mileage reimbursement from home to the County building and back for County meetings. County commissioners can receive these reimbursements, however, it is Treasury's position that this is a personal expenditure under Internal Revenue Service guidelines as well as Michigan Income Tax requirements and should be included in the commissioner's W-2 as wage. The Authority does not include these amounts in the W-2.

It is further their position that non-commissioners appointed to various boards such as housing, jury, etc. are not permitted to receive a mileage allowance from home to the County facility. In the case of the Authority, the question is whether the board members are acting as commissioners or simply as board members of this legally created entity.

LONG-TERM DEBT

The long-term debt total at December 31, 2006 is \$482,043 which has decreased by \$308,959 over the prior year. This debt still includes \$175,000 plus interest on the bonds for cell-A phase II, which was full at the end of last year (December 31, 2006). The debt has been dramatically reduced, and by self funding the construction of the most recent cell, this should increase the Authority cash flow over the next several years.

ACCOUNTING PROCEDURES / BUDGETING / CASH FLOW PROJECTIONS

The Authority needs to change its method of recording and processing certain accounting transactions. For example, during 2006 equipment purchases were charged as an expense but should have been capitalized as a fixed asset to be depreciated. The bond principle payments were classified as an expense and should have been posted as a reduction in the liability accounts and the payments on the equipment lease/purchases should be separated between interest and principle and posted to interest expense and as a debit to the liability account rather than the entire payment being posted as an expenditure.

Your present budget has line items for expenditures such as debt payments and capital outlay. An enterprise fund should budget instead for depreciation. In addition to the budget a cash flow projection should be prepared to account for debt payments and capital expenditures.

A cash flow projection would assist your administrator and the County Treasurer to better predict when cash will be needed for operations, debt payments and capital expenditures. By monitoring these projections your National City sweep account could be invested for longer periods and generate higher interest returns for the Authority.

BAD DEBT / ACCOUNTS RECEIVABLE

Based on my discussion with your administrator it appears that at least one of your accounts receivable is uncollectible. By board resolution this account should be written off and charged to a bad debt expense account.

REIMBURSEMENT FOR MEALS

The Authority established a maximum reimbursement amount for meals at a rate not to exceed \$30.00 per day. The assumption would be that this must include all three meals when out of town overnight. I noted several instances where Authority personnel received reimbursement for single meals which exceeded the \$30.00 limit.

COUNTY ROAD COMMISSION

INTERNAL CONTROL/SEGREGATION OF DUTIES

There is not adequate segregation of duties in the accounting area. One individual posts all journals. Another individual prepares the general ledger, checks and related check registers, initiates most journal entries, signs all checks, and reconciles all bank accounts.

I recognize that with only two full time individuals working in the accounting area adequate segregation of duties is not only difficult but for all practical purposes impossible. The Board must recognize that all internal controls must be evaluated for cost effectiveness and at this point little can be done to increase the control without a considerable cost increase. The controls which could be added would have to be compared with the costs required to obtain those controls. A review of the bank reconciliations each month by management would strengthen internal accounting control.

INVENTORY/INVENTORY DETAIL

The detail road materials inventory records do not agree to the general ledger totals at year end nor did they agree throughout the year

I suggest that during 2007 a monthly physical be taken on road materials and that the detail records be reconciled each time to the ledger control totals.

Your parts inventory detail also was slightly out of balance and a monthly reconciliation of the detail to the general ledger should also be done.

We have noticed that all of the road commissions we audit have difficulty balancing these records, and if you can't get the totals to agree, possibly Cogitate could assist in this balancing process.

ACCOUNTS PAYABLE

Vendor invoices paid in January of each year which are expenditures incurred in the prior year must be posted differently from other January invoices. The posting date should be December of the prior year so that the expenditures are recorded in the correct fiscal year. Correcting entries had to be recorded in both 2005 and 2006 to properly record these invoices.

MILEAGE REIMBURSEMENT

The Department of Treasury has recently attempted to clarify the legality of payment for mileage reimbursement from home to the County building and back for County meetings. County commissioners can receive these reimbursements, however, it is Treasury's position that this is a personal expenditure under Internal Revenue Service guidelines as well as Michigan Income Tax requirements and should be included in the commissioner's W-2 wage.

It is further their position that non-commissioners appointed to various boards such as housing, jury, etc. are not permitted to receive a mileage allowance. There is no specific mention of Road Commissioners in the published information, but, presumably an appointed Road Commission would not be eligible for mileage. Elected Road Commissioners are not specifically discussed.

This report is intended solely for the information and use of Montmorency County Board of Commissioners, management, and others within the administration as well as the Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.



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